Chapter 5

Developments in the multilateral system in 2009-10

This chapter consists of three sections. The first summarises ongoing reforms at the Bretton Woods Institutions (BWIs), the UN system, the European Commission and the multilateral development banks (MDBs). The second section describes how multilateral agencies responded to the global economic crisis and the third covers issues of resource mobilisation and replenishments in 2009-10.
Recent challenges, in particular the global financial and economic crisis, have required multilateral agencies to take centre stage. New policy forums, such as the G20, were created or upgraded in order to manage and co-ordinate the crisis response. Reforming multilateral agencies so that they can better meet the new challenges was a key part of this endeavour. This chapter reviews and summarises reforms that are taking place at the International Monetary Fund, the World Bank, and other multilateral bodies. It focuses on the role of multilateral agencies in the context of the global economic crisis, on their delivery of global public goods, and on their resource mobilisation efforts.

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Ongoing reforms

All multilateral agencies covered in this report have established specific reform programs to meet one or more of the following objectives: (i) to become more effective and efficient, applicable to all agencies; (ii) to ensure greater policy coherence for development, as in the case of EU Institutions; (iii) to reduce fragmentation, particularly as it affects the UN system; and (iv) to achieve governance and voting structures more closely in line with their memberships, a challenge faced by the Bretton Woods Institutions in particular.

April 2010 Development Committee outcomes

The Development Committee communiqué of 25 April 2010 recognised the critical role of both the support from the IMF (almost USD 175 billion) and from the World Bank Group (over USD 100 billion) since the start of the crisis. The Development Committee endorsed an increase in the voting power of developing and transition IBRD members by 3.13% in order to give them greater voice and participation. When added to the 1.46% increase under the first phase of adjustment, the Development Committee’s endorsement boosted the developing and transition country voice to 47.19% (World Bank, 2010a). This realignment is the basis for the current selective capital increase. The next shareholding review in 2015 will establish a roadmap for a dynamic formula for lasting realignment of voting powers.
World Bank Group reforms

As noted above, the World Bank Group (WBG) has been pursuing programmes of external and internal reforms to enable the institution to become more efficient, effective, and accountable. At the request of the World Bank President, Mr. Ernesto Zedillo, the former Mexican President, led a commission to look beyond the issue of voice and participation, review the institution’s governance, and identify the urgent needs for modernisation to better equip the WBG for confronting future global challenges. The World Bank Board has not endorsed all of the Zedillo recommendations, particularly those relating to the Bank’s governance and management reports (see Box 5.1).

The WBG has also taken significant concrete steps to reform internally. These internal reforms revolve around three broad categories:

1. modernising and enhancing the effectiveness of the Bank’s financial and non-financial instruments to tailor them to client needs, improve the speed of delivery, and demonstrate results on the ground
2. enhancing service delivery through changes in the way the Bank is organised, including improvements to the matrix and an enhanced field presence, coupled with a greater devolution of responsibility and accountability
3. supporting more effective services and better delivery of services through changes in policies, infrastructure and the incentives system

Under the first category, a risk-based Investment Lending (IL) model is now used to differentiate projects and their processing requirements according to the risks they present. This allows for simpler procedures in low-risk settings (and more devolution to country level), as well as enhanced supervision and implementation support for more complex projects. The Bank’s new disclosure policy (effective as of 1 July 2010) makes information on the preparation of lending operations, the formulation of Bank policies and strategies, and Board proceedings available to the public.

Box 5.1. Recommendations of the Zedillo Commission Report

The Zedillo Commission Report recommends core changes in the structure and role of the board and the relationship between the Board and the President. Released in October 2009, the report made five key recommendations to be considered as a bundle in which each element is essential to the other:

1. enhance the voice and participation of developing countries with a view toward achieving an even split between developed and developing countries;
2. restructure the WBG’s governing bodies by raising the political level of the Executive Board and delegating authority over financing operations to management;
3. reform the leadership selection process by opening it to all qualified candidates, regardless of their nationality;
4. strengthen management accountability; and
5. strengthen the WBG’s resource base and seek how best to recapitalise the institution.
**IMF reforms: Securing global financial stability**

To enhance its effectiveness and legitimacy, the Fund has initiated a process designed to realign members’ voting power. In 2008, the Manuel Committee (named after its chair, Minister Trevor Manuel of South Africa) was asked to address the larger question of the adequacy of the Fund’s institutional framework (Box 5.2). The report, issued in March 2009, came to the conclusion that the lack of an explicit mandate to oversee global financial stability in all of its dimensions – financial sector, domestic macroeconomic policies, and currency arrangements – has reduced the effectiveness of Fund surveillance. At the same time, because of the Fund’s ability to respond effectively to the crisis, its popularity grew by the end of 2009, as will be discussed later in this chapter.

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**Box 5.2. Recommendations of the Manuel Committee’s Report**

The Manuel Committee recommended a series of governance reform measures which should be agreed as a single package:

- accelerate the quota revision process; eliminate the practice of appointed chairs to reflect current economic realities; and elevate the Board’s role from operational decisions to giving advice on strategic issues and to supervision and oversight
- expand the Fund’s surveillance mandate by giving it greater authority
- lower the voting threshold on critical decisions from 85% to 70-75% and extend double majorities to a wider range of decisions, thus ensuring that key decisions command the support of the majority of members
- introduce an open, transparent, merit-based system for the appointment of the Managing Director and Deputy Managing Directors

Additional recommendations included augmenting the Fund’s available financial resources and enhancing its expertise and role in macroeconomic co-ordination, financial, and capital account issues.

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**UN reforms: Implementing the Delivering as One Initiative**

The Secretary-General launched the United Nations system’s current effort to become more coherent, effective, and relevant in February 2006. Delivering as One, the genesis of which was described in detail in last year’s DAC Report on Multilateral Aid, has been implemented on a pilot basis in eight countries. In addition to the One UN programmes, the UN is currently focusing on four other areas of the system-wide coherence process: funding, governance, gender, and the harmonisation of business practices. In December 2009, the UN Secretary General issued a report with proposals and options for broader governance reforms to improve the effectiveness of the UN Development Group, the main elements of which are summarised in Box 5.3.

A number of important assessments, including the Triennial Comprehensive Policy Review (TCPR) and the stocktaking of the eight country-based One UN programmes, have identified some important funding issues (UN Secretariat, 2009):

- The fragmented nature of the funding architecture of UN operational activities for development.
High transaction costs, which are undermining the effectiveness of UN development co-operation at country level. The growth in single-donor non-core funding is an important factor in increasing transaction costs for UN agencies.

The rapidly declining share of core resources – less than 30% of overall contributions in recent years – encourages supply-driven approaches and undermines the principle of country leadership and ownership.

The introduction of multi-year funding frameworks and strategic plans has advanced the predictability of funding to some UN entities, helped to define result indicators, reduced transaction costs, and helped to focus activities on high-priority areas.

Evidence from the evaluation of the eight pilot countries indicates that partner country governments are exercising increased national leadership over UN programmes and assuming a stronger role in steering UN agencies to support national development priorities. The exercise has already helped to align UN programmes and funding more closely with national priorities. The Multi-Donor Trust Fund approach to funding One UN programmes has proven to be attractive for donors thanks to the streamlined process and to the improved cost efficiency achieved through the joint one-stop-shop agreement with all UN agencies. It has also given the UN agencies incentives to co-ordinate, plan and implement together. Many challenges remain, however. Foremost among them is the difficulty in raising predictable resources, since donors are still financing UN agencies and projects directly.

Reforms of the multilateral development banks (MDBs)

To scale up the effectiveness of the institution and the development impact of its operations, the African Development Bank (AfDB) has pushed for reform in four key areas:

1. human resource management
2. operational business processes
3. decentralisation and operationalisation of its field offices (FOs)
4. budget reforms

Box 5.3. Proposals for the further improvement of UN system-wide coherence related to operational activities for development

1. Strengthen functional coherence between UN-wide governing bodies, namely the General Assembly, the Economic and Social Council and the Executive Boards of the Funds and Programmes, as well as the governing bodies of the Specialised Agencies.
2. Strengthen financial reporting on operational activities for development.
3. Create a central repository on operational activities for development.
4. Undertake the independent evaluation of lessons learned from “Delivering as One” programme country pilots.
5. Enhance harmonisation of business practices within the United Nations development system.

The most recent budget framework helps to ensure that resource allocations are in line with the Medium Term Strategy (2008-12). It also reinforces management’s accountability for delivery and results by linking programme deliverables to key performance indicators (KPIs). The Bank continued its activities in the area of knowledge management and development, which the Medium-Term Strategy identified as a key complement to its lending activities. To this end, the Bank approved the Knowledge Management and Development Strategy (KMDS) in July 2008 to promote synergies between operations and knowledge management with the overarching goal of consolidating the Bank’s role as the premier knowledge institution for Africa and a leading agent for change in pursuit of sustainable socioeconomic development.

The Asian Development Bank’s (AsDB) Strategy 2020 recognises five core specialisations that reflect its comparative strengths and its clients’ needs: (i) infrastructure; (ii) environment, including climate change; (iii) regional co-operation and integration; (iv) financial sector development; and (v) education. In translating its results framework into operational terms, the AsDB has set out to monitor outcomes at regional and country levels, operational effectiveness, and development effectiveness (which includes the measurement of efficient use of internal resources and the implementation of reforms). The 2008 Development Effectiveness Review suggested that the AsDB is improving its overall development effectiveness and that the majority of performance indicators are on track to meet targets. AsDB is implementing a number of time-bound remedial actions to strengthen project performance reporting, knowledge creation and sharing, co-financing, gender mainstreaming through operations, and gender equality within the organisation.

**IMF and World Bank collaboration**

More consistent collaboration between the World Bank and the IMF was in large part prompted by the rapid succession of global crises beginning in 2008. The 2007 external review of Bank-IMF collaboration (the “Malan Report”) led to a Joint Management Action Plan (JMAP) to further enhance the way the two institutions work together on the basis of existing “good-practice approaches”.

The March 2010 review of the JMAP suggests that it has played a supporting, rather than central, role in this closer collaboration and future focus should be directed towards:

- providing incentives for joint country-team consultations
- making greater use of cross-institutional feedback in assessing performance
- strengthening staff mobility between the institutions
- enhancing clarity on information sharing
- improving awareness of organisational structures

The recent crisis showed how important it is for both institutions to collaborate closely in providing financial assistance and policy advice. For example, both the IMF and the World Bank give advice on fiscal issues, but their roles in supporting partner countries are determined by their respective mandates: the IMF focuses on the aggregate fiscal policy stance consistent with overall macroeconomic stability, as well as providing technical assistance to strengthen overall fiscal positions; and the Bank advises on the composition and effectiveness of spending.

In August 2009, the IMF approved new guidelines on debt limits. Debt limits seek to prevent the build-up of unsustainable debts, while allowing for adequate external
financing. The new framework, which became effective in December 2009 (IMF) and April 2010 (World Bank), moves away from a single design for debt limits (or, to use the usual terminology, concessionality requirements) towards a menu of options. This menu approach takes better account of the diversity of situations faced by low-income countries (LICs) with regard to their debt vulnerabilities – as informed by debt sustainability analyses (DSAs) under the low-income country debt sustainability framework (DSF) – and their “capacity” (both macroeconomic and public financial management capacity).

Under the new framework, a country with relatively high debt vulnerabilities should adopt tighter concessionality requirements. Conversely, if debt vulnerabilities are relatively low, looser requirements can be considered. Similarly, the higher a country’s management capacity, the better a country will be able to implement and benefit from more flexible, but also more technically demanding, approaches to concessionality requirements. Each of the two factors, namely debt vulnerabilities and capacity, can therefore take two values: “lower” and “higher”. Thus, this framework results in four different types of concessionality requirements (Table 5.1). Unless debt sustainability is a serious concern (“higher” value) and capacity is limited (“lower” value), the applicable concessionality requirements normally allow for non-concessional borrowing and thereby provide more flexibility. For the most advanced LICs, concessionality requirements might be removed altogether.

<table>
<thead>
<tr>
<th>Extent of debt vulnerabilities</th>
<th>Lower</th>
<th>Higher</th>
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<tbody>
<tr>
<td>Capacity</td>
<td>Lower</td>
<td>Higher</td>
</tr>
<tr>
<td>Minimum concessionality</td>
<td>Maintain minimum concessionality requirement based on previous debt-by-debt approach, likely higher than 35 percent, with limited or no room for nonconcessional borrowing</td>
<td></td>
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<tr>
<td>requirement based on the previous debt-by-debt approach, but with added flexibility on nonconcessional external debt (e.g., higher and untied nonzero limits, if consistent with maintenance of low debt vulnerabilities)</td>
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<tr>
<td>Minimum average concessionality requirement applied to external or total public borrowing; for most advanced LICs, no concessionality requirements and overall nominal debt limit if needed</td>
<td></td>
<td></td>
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<tr>
<td>Overall limit on the present value of external or total public debt; for most advanced LICs, ceilings on nominal external or total public debt</td>
<td></td>
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</tbody>
</table>

Source: International Monetary Fund, 2010.

The IMF and the World Bank also reviewed the Debt Sustainability Framework in August 2009 with a view to enhancing its flexibility. The review recognised the impact of public investment on growth and the importance of remittances as a source of external financing. It also addressed the risk of small changes in assessments of a country’s policy and institutional capacity leading to more adverse debt distress ratings, and seeks to clarify the appropriate concept of state-owned enterprise debt for the purpose of debt sustainability assessments. Modifications in all of these areas impact favourably on assessments of LICs’ capacity to borrow.

Box 5.6 illustrates how UN agencies and international financial institutions are working together to initiate and implement programmes in response to the global food crisis.
How have multilateral agencies responded to the global economic crisis?

The World Bank, regional development banks, and the EU all moved rapidly to offer crisis-related finance from within existing concessional envelopes. The IMF implemented G20 calls to issue new Special Drawing Rights (SDRs), overhauled its concessional lending framework, and scaled up its concessional finance. Multilateral agencies were able to respond quickly and flexibly due to the resources entrusted to them by member states.

**IMF**

The London G20 Summit agreed to support a package of measures to increase the crisis response role of the IMF described in Box 5.5, all of which will require agreement under the IMF’s governance procedures.

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**Box 5.4. Global food crisis initiatives**

- In April 2008, the UN Secretary General established the **High-Level Task Force on the Global Food Security Crisis (HLTF)** with the primary aim of promoting a comprehensive, unified response. In July 2008, the Task Force produced the joint Comprehensive Framework for Action (CFA).

- In May 2008, the WBG set up the **Global Food Crisis Response Program (GFRP)** to support implementation of the CFA. The GFRP provides a framework for the Bank to co-ordinate its own contributions in partnership with other multilateral organisations and donor agencies. It is designed to support governments in immediate- and medium-term responses to shortfalls in domestic food availability combined with rising international food prices. The program was increased to USD 2 billion in April 2009. The GFRP subsequently benefitted from additional funding from Australia, the Russian Federation, and the European Commission.

- Responding to a request from the G20 Summit, the World Bank set up the **Global Agriculture and Food Security Program (GAFSP)** in January 2010. The GAFSP is a multilateral trust fund designed to operationalise the commitments to agriculture and food security in poor countries made by the G8 at L’ Aquila in July 2009. There, donors pledged to contribute USD 22 billion to an Agricultural and Food Security Initiative (AFSI).

  - Two windows will be created under the GAFSP to hold targeted donor contributions. The public sector window will be available for supervising entities including the World Bank, other MDBs, IFAD, FAO, and WFP which will manage projects and disburse funds. The private sector window will be managed by IFC.

  - Funding under this program is eligible to IDA countries and, where warranted, to IDA blend countries. The GAFSP Trust Fund, expected to reach between USD 1 and 1.5 billion, has been agreed to by Canada, Spain and the United States with additional contributions expected from other donors.
Scaling up financial assistance

- Since September 2008, the IMF has provided more than USD 170 billion in new lending commitments. Concessional lending commitments tripled in 2009 to USD 3.8 billion.

- The IMF’s lending capacity has also substantially increased. Contributions from several IMF member countries initially boosted loan resources by USD 250 billion, followed by an agreement for a further USD 500 billion under a renewed, expanded New Arrangements to Borrow (NAB). The IMF’s concessional lending capacity has been doubled to USD 17 billion through 2014, which includes a concessional lending capacity of up to USD 8 billion in 2009-10. This will require additional subsidy resources of USD 2.8 billion to bridge the gap between market interest rates and lower concessional rates charged to LIC borrowers, part of which will come from the sales of IMF gold.

- Following a call by the G20 Heads of State and the IMFC in April 2009, the IMF implemented new allocations of SDRs equivalent to USD 283 billion in August-September 2009. Of those allocations, some USD 18 billion went to low-income countries. This was meant to help liquidity-constrained countries address the fallout from the global crisis by limiting the need for adjustment through contradictory policies in the face of deflation risks.

- The IMF has granted interest relief, with zero payments on outstanding IMF concessional loans to the end of 2011 in order to help LICs cope with the crisis. Thereafter, it expects to implement permanently higher concessionality of Fund financial support.

More flexible lending instruments

- A new form of financial support – the flexible credit line – was introduced for strongly performing economies, providing a high level of upfront access to IMF resources with no ongoing policy conditions.

- To make its financial support more flexible and more closely tailored to the diversity of low-income countries, a new Poverty Reduction and Growth Trust (PRGT) was established with three new lending windows:

  1. The Extended Credit Facility (ECF) replaces the Poverty Reduction and Growth Facility (PRGF) and is the Fund’s main tool for providing support to LICs with protracted balance of payment problems. It allows higher levels of access, more concessional financing terms, more flexible programme design features, as well as a streamlined and more sharply focused conditionality.

  2. The Standby Credit Facility (SCF) replaces the Exogenous Shocks Facility’s (ESF) high access component for countries that face short-term balance of payments problems from time to time, allows for higher access, and can also be used on a precautionary basis to provide insurance.

  3. The Rapid Credit Facility (RCF) provides rapid financial assistance to LICs facing an urgent balance of payments need without the need for programme-based conditionality.

- Recent reforms abolished “hard” structural conditionality in all IMF-supported programmes, putting a greater focus on objectives rather than specific actions and deadlines.

- Together with a review of the flexibility of the Debt Sustainability Framework (DSF) described in greater detail in Table 5.1, debt limits applied under Fund programmes have been made more flexible (relating them systematically to countries’ DSAs and debt management capacity). This could create more flexibility for the strongest LICs to borrow at lower levels of concessionality while pursuing sound macroeconomic policies.
World Bank Group

The WBG designed a number of initiatives to mobilise more resources, both public and private to protect the poorest and stimulate private sector activities (see Box 5.6). Among the initiatives, a total of USD 20.7 billion was provided for infrastructure, a sector critical for rapid recovery and job creation. Similarly, overall agricultural lending by the WBG will

Box 5.6. The World Bank Group’s response to the crisis

Scaling up financial assistance

- Overall, the World Bank Group’s new commitments increased by 54% in fiscal year 2009 (FY09) over the previous year to reach a record high of USD 60 billion.

- IBRD’s lending almost tripled to a record USD 32.9 billion from USD 13.5 billion in 2008. In 2010, IBRD lending is projected to exceed USD 40 billion. The IBRD is developing an approach to expand the use of its resources for specific projects in IDA countries based on the IBRD Enclave Framework for loans and/or partial risk guarantees.

- IDA commitments reached a record level of USD 14 billion in FY09, 25% higher than a year earlier, and further increased to USD 14.5 billion in FY10. IDA disbursements were also significant at USD 9.2 billion in FY09 and USD 11.5 billion in FY10.

- Up to USD 2 billion of IDA15 resources will be provided under the IDA Fast-Track Facility, which has accelerated processing and approval procedures, and provides for a greater degree of front-loading of IDA resources (up to 50% of country allocations). As of March 2010, USD 1.5 billion had been committed.

Targeted Initiatives

- The Global Food Crisis Response Program (GFRP), with commitments of USD 1.2 billion and disbursements of USD 870 million in over 30 countries in FY09 (see Box 5.4).

- The Rapid Social Response (RSR), designed to support safety nets and other social protection programs. It totalled USD 4.3 billion in FY09, funded primarily from IBRD and IDA resources and contributions to a multi-donor trust fund.

- The Infrastructure Recovery and Assets Platform (INFRA), a co-ordinated, multi-donor effort to help developing countries invest in their infrastructure sectors as economic drivers in the face of the current global crisis.

Supporting Private Sector Activities

- Co financing innovations by the IBRD and the expanded use of guarantees, insurance instruments, and risk management products by both the IBRD and MIGA support private sector activities.

- The IFC committed USD 7 billion in financing through targeted initiatives in FY09. This in turn mobilised an additional USD 11 billion of funding from partners under IFC management or parallel arrangements:
  - On trade, the IFC expanded its Global Trade Finance Program to USD 3 billion in trade guarantees and launched the Global Trade Liquidity Program (GTLP), which has already supported USD 3 billion in trade to date, benefitting mostly African countries.
  - On infrastructure, the IFC launched the Infrastructure Crisis Facility (ICF) to help viable, privately funded, or PPP projects that face financial distress as a result of the crisis.
  - On microfinance, the IFC launched the Microfinance Enhancement Facility (MEF) to help microfinance institutions primarily with debt financing.
  - On bank capitalisation, the IFC Capitalisation Fund (USD 3 billion in debt and equity) is designed to strengthen the capital base of banks in emerging markets.
increase to USD 12 billion over the next two years, up from USD 4 billion in 2008. This is critical not least because the World Bank’s earlier scaling-back of its engagements (both financial and policy) in infrastructure and agriculture in the 1990s (World Bank, 2007b) is widely considered to have been short-sighted. Investments in safety nets and other social protection programmes in health and education are also projected to reach USD 12 billion over next two years.4

**IDA Crisis Response Window**

At the Mid-Term Review of the fifteenth IDA replenishment cycle (IDA15) that took place in late November 2009, IDA deputies endorsed the creation of a dedicated Pilot Crisis Response Window (CRW) within the IDA to provide additional funding for the protection of core spending. The Pilot CRW, established for the remaining half of IDA15 (January 2010 to June 2011), will help protect core spending on health, education, social safety nets, infrastructure, and agriculture. The USD 1.6 billion IDA15 CRW will be funded through a redeployment of internal IDA resources and new voluntary donor contributions. CRW country allocations are designed to complement IDA’s performance-based system (PBA), and provide additional financial support to those non-oil exporting IDA-only countries with the greatest crisis-related financing needs, and the least capacity to raise funds from other sources.

IDA deputies endorsed moving forward with the preparation of a proposal for a permanent CRW to respond to “exceptional” crises caused by exogenous shocks. This was further detailed at the Second IDA16 Replenishment meeting that took place in Bamako in June 2010. The permanent CRW would respond to major natural disasters or to severe economic crises. Participants recognised that the CRW would need to combine a rules-based approach with informed judgment, given difficulties with predicting crises, and requested further work on the criteria for economic crisis, including coordination with the IMF, triggers, and country eligibility. Participants agreed that the CRW be capped at 5% of the total IDA16 replenishment resources, but expressed a range of views on the mix of ex-ante and ex-post financing (World Bank, 2010b).

**Regional development banks**

The African Development Bank took steps to accelerate resource transfers to its member countries by frontloading its allocations, speeding up disbursements, and restructuring portfolios. In addition, the AfDB Group adopted the Bank’s Response to the Economic Impact of the Financial Crisis in March 2009. It comprises: (i) a USD 1.5 billion Emergency Liquidity Facility, and (ii) a USD 1 billion Trade Finance Initiative consisting of two phases. The first phase supports trade finance by African banks and the second phase is a contribution to the IFC-led Global Trade Facility Programme, again for African trade finance. The 2009 Joint Action Plan to support Africa’s financial systems and lending to the private sector (small and medium enterprises and infrastructure) was agreed by eight international financial institutions, including the AfDB Group and the WBG. This initiative is expected to increase their commitment by at least USD 15 billion over the next 2-3 years.

The Asian Development Bank crisis-related assistance, framed under its long-term 2008-20 strategic framework is expected to increase by more than USD 10 billion in 2009-10, bringing total AsDB assistance for these two years to around USD 32 billion (AsDB, 2009), compared to about USD 22 billion in 2007-8. (Assistance includes
project investments, quickly disbursed policy-based loans, guarantees, and new initiatives designed to address specific crisis needs.) The increase in lending comprises loans for trade finance, counter-cyclical support for fiscal spending, and infrastructure investment. AsDB will also expand its crisis-related support through grants for policy analysis and capacity building. Given severe resource constraints faced by low-income countries, the AsDB approved an additional liquidity of USD 400 million to AsDF-only countries. AsDF borrowers are also allowed to frontload their entire 2009-10 biennial allocation. The AsDB is working closely with the ASEAN Secretariat to establish a credit guarantee and investment mechanism as a trust fund to provide its members access to the Asian bond market for additional funding.

To boost lending in the short-term, the Inter-American Development Bank (IDB) eliminated ceilings on its policy-based lending authority. Approvals programmed for later years were brought forward. In October 2008, the IDB created a fast-disbursing USD 6 billion emergency facility to support commercial lending. The funds are provided to governments which, in turn, make the funds available to commercial banks. These financial institutions can then use the resources to finance lending to companies. The Bank’s Trade Finance Facilitation Program (TFFP) increased its funds to USD 1 billion from USD 400 million and the credit line now supports non-dollar denominated trade finance transactions. The IDB increased approvals of loans, credit guarantees and grants to USD 9.6 billion in the first nine months of 2009 – a rise of 77% compared to the same period a year earlier. The increased lending has been accompanied by record disbursements. In the first nine months of 2009, the IDB disbursed USD 6.5 billion to the region, 63% more than in the same period the previous year.

European Commission

The European Commission is frontloading EUR 3 billion, or 72% of its projected budget support, to African, Pacific and Caribbean (ACP) nations to protect social spending. In August 2009, the Commission set up an *ad hoc* mechanism, the EU Vulnerability FLEX (V-FLEX) instrument, to assist ACP countries in response to the economic crisis with funding of up to EUR 500 million. The Commission approved the first package of financing decisions, a total of EUR 215 million, in December 2009. V-FLEX works preemptively on forecasts of fiscal losses and other economic and social vulnerability criteria to ease the impact of the crisis. For the first tranche of EUR 215 million, all amounts are paid in the form of budget support to enable partner countries to maintain their level of public spending in priority areas, including social sectors, without jeopardising their macroeconomic stability. Most of this funding is expected to be disbursed rapidly and complement assistance from the World Bank, International Monetary Fund, and other regional development banks.

In addition to V-FLEX, the European Commission reinforced and reshaped its EU-Africa Infrastructure Trust Fund, so increasing grant capital, together with bilateral funds from EU Member States, to a total of EUR 500 million by 2010. This move has enabled it to mobilise an additional EUR 2.5 billion in loans.
Lessons of the crisis for international financial institutions and regional development banks

Multilateral institutions have drawn many lessons from the recent crisis. The IMF has deliberated extensively on macroeconomic and financial policies and regulations in line with the Manuel Report’s recommendations. First, surveillance must be sharpened to focus on systemic risks and spillover effects, including those risks related to macro-financial issues. Second, in order to restore confidence, lending for crisis response must provide members with access to large, up-front disbursements, using instruments tailored to the strength of countries’ policies. And, third, the IMF must continue to study and assess the credibility and feasibility of various policy options to promote the long-term stability and proper functioning of the international monetary system.

In the months ahead, the Fund will consider various ideas to further strengthen its crisis prevention toolkit. This will include making improvements to existing instruments, creating a new precautionary credit line to serve a broader group of members, and a new multi-country swap/credit line. Work in this area includes understanding the origins and behaviour of capital flows and developing a toolkit to manage volatility, as well as work related to the supply of reserve assets.

While more time will necessarily be needed to draw up a comprehensive list of lessons from the global economic crisis, the WBG has identified areas that call for action and rethinking. First, there is a need for broader reforms to improve financial system stability and soundness (relying on a broader and more representative Financial Stability Board and an expanded IMF role). Second, there is recognition of the importance of safety nets as effective policy responses. Third, there is a need to reassess the role of government. And, fourth, the approach to a broad range of policy issues, ranging from public-private partnerships to exchange rate regimes and capital account openness, needs to be reconsidered.

On the basis of its global and cross-sectoral presence and knowledge, financial management expertise, leadership in global public goods, and its catalytic and convening powers, the WBG sees its comparative advantage in the post-crisis era shaped by five interrelated priorities:

1. target the poor and the vulnerable with a focus on the “bottom billion” of Africa and South Asia, expanding the provision of basic needs and targeted social safety nets
2. create opportunities for growth, centred on agriculture and food security, infrastructure, investment climate, and private sector involvement, and on engagement in critical public finance issues such as effective use of public resources and public financial management
3. provide appropriate knowledge and policy expertise to developing countries
4. support the global public goods agenda – pressing global challenges such as climate change and communicable diseases
5. strengthen governance and fight corruption both at country and global and regional levels
Resource mobilisation: Capital increase and replenishments

The year 2010 requires donors to make simultaneous decisions on the replenishment and recapitalisation of major concessional funds and multilateral development banks. Donors are increasingly looking for innovative ways to provide predictable funding to funds, even under budget constraints. One such example is highlighted in Box 5.7.

Box 5.7. DFID core funding to the GAVI Alliance: Long-term funding mechanism

Analysis commissioned by GAVI (McElligot, 2009) suggests that predictable funding could increase immunisation outcomes by at least 10%, compared to the same funding provided on a non-predictable basis. If all GAVI donors provided long-term funding, this could potentially result in an additional 230,000 lives saved from 2009 to 2015 (if GAVI spends the forecast total of USD 8.1 billion over this period).

The UK’s Department for International Development will provide predictable funding to GAVI through a 10-year pledge formulated with a rolling three-year-ahead binding element. Within the overall 10-year framework, they will issue a series of binding promissory notes. In the first year DFID will issue a promissory note for the first three years. Each subsequent year (from year 2) they will extend the promissory note commitments so that these always cover the next three years ahead. In this way, the overall funding pledge would gradually become a binding commitment. The decision to issue each promissory note would be subject to GAVI demonstrating performance against a mutually agreed long-term results-based framework linked to GAVI’s key performance indicators and business plan.

The objective of DFID’s support is to provide a long-term commitment using a mechanism that (i) gives GAVI increased confidence for planning long-term funding (up to 10 years) to countries; and (ii) enables GAVI to make binding commitments to countries up to three years ahead on the strength of our commitment (and without having to hold a cash balance to cover the obligation).

Source: The United Kingdom’s Department for International Development (DFID).

The year 2010 calls for the recapitalisation, or general capital increase of the Inter-American Development Bank, the IBRD, and the African Development Bank. While the loans they leverage are not concessional, shareholder contributions to their equity do. The DAC share of the costs will vary depending on the relevant shareholder bases indicated in the coefficient column in Table 5.2. Based on published estimates of equity shortfalls 5-6 years out and straight-line reconstitution, general capital increases alone could produce additional ODA annual claims for DAC donors’ paid-in capital of about USD 879 million a year from 2014 (depending on the adjusted IBRD shareholder formula).

Concurrent decisions on the replenishment of all major concessional funds are taking place in 2010. To indicate the order of magnitude, previous replenishments were: IDA (USD 42 billion over three years); the AfDF (USD 8.9 billion over three years); GEF (USD 4.2 billion over four years); and the Global Fund (USD 9.7 billion over three years). Obviously real needs and inflation have generally increased and absorptive capacity is also rising, so the above replenishment figures may be considered floor estimates. Table 5.2 indicates estimated minimum calls on DAC members for recapitalisation and replenishments over the next nine years.

Further information on all general capital increases and replenishments can be found in Annex D of this report.
Main findings

• The multilateral development banks are moving ahead with reforms towards a more representative governance structure. Internal reforms also aim to provide more flexible, better adapted instruments for their clients. (Paragraphs 175-178 and 182-184)

• The year 2010 requires donors to make simultaneous decisions on the replenishment and recapitalisation of major concessional funds and multilateral development banks. (Paragraph 206-208)

Notes

1. In the World Bank’s most recent definition (2008), which is broader than those used by other international organisations, developing countries are defined as those with gross national income per capita below USD 11,905, which covers all low- and middle-income countries.

2. See page 7 in “Debt Limits in Fund-Supported Programs, IMF 2009.

3. Quota subscriptions from member countries are the IMF’s main source of financing. It can, however, supplement its resources through borrowing if current resources fall short of member countries’ financing needs. The IMF currently has in place a number of bilateral loan and note purchase agreements, and it has two standing borrowing arrangements: the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB).

4. These amounts for agriculture and safety nets are IDA or IBRD loans (the Bank’s regular resources) and do not include trust fund disbursements.
5. An IBRD USD 2 billion loan with deferred drawdown option, together with standby commitments from Asian Development Bank (ADB), Japan and Australia, has allowed Indonesia to raise USD 12 billion of private funds in 2009 under difficult market conditions.

6. Most noteworthy are recent reflections by IMF staff about the need to rethink macroeconomic policy, including combining monetary policy and regulatory tools and the desirability of a higher inflation target (around 4% compared to 2%, which has been the norm adopted by central banks in developed economies), to give more room to expansionary monetary policy through lower interest rates. With inflation at 2%, the margin for nominal interest reductions is limited. Another stream of work at the IMF concerns capital account liberalisation.