



An Introduction to the World of Development Banks

Workshop, May 2013

WU (Vienna University of Economics and Business)

Outline

- ▶ International Development Finance Architecture
 1. Historical Evolution
 2. Global Framework
 3. Main Financial Channels
 4. World of Development Banks
- ▶ Overview of Presentations



International Development Finance Architecture

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1. Historical Evolution

Example: The World Bank Group

History: The World Bank Group (1)

- ▶ 1940's
 - ▶ Articles of Agreement for International Bank for Reconstruction and Development (IBRD) signed by 28 countries in 1945
 - ▶ Focus on reconstruction of war-damaged European economies
 - ▶ Independence for India and Pakistan in 1947
- ▶ 1950's
 - ▶ Lending for major infrastructure and industrial development
 - ▶ International Finance Corporation (IFC) established in 1956 to extend support to private sector

History: The World Bank Group (2)

▶ 1960's

- ▶ International Development Association (IDA) established to extend financing on concessional terms to the lowest-income countries
- ▶ 18 newly independent African countries join in 1963
- ▶ Expansion of lending to rural development
- ▶ International Center for Settlement of Investment Disputes (ICSID) established in 1966

▶ 1970's

- ▶ Poverty placed at the top of the World Bank (WB) agenda for the first time in 1974 Annual Meeting Speech
- ▶ First World Development Report (WDR) published in 1978

History: The World Bank Group (3)

▶ 1980's

- ▶ First structural adjustment loan to Turkey in 1980
- ▶ Establishment of Country Departments in 1987
- ▶ Multilateral Investment Guarantee Agency (MIGA) established in 1988 to provide guarantees for private-sector investments

▶ 1990's

- ▶ Russian Federation and 12 newly independent Soviet republics become members in 1992 and WB supports Transition
- ▶ Major criticism of WB by NGOs and governments in 1994
- ▶ Heavily-Indebted Poor Countries (HIPC) initiative launched in 1996

History: The World Bank Group (4)

▶ 2000's

- ▶ Millennium Development Goals (MDGs) endorsed by 189 countries at UN Millennium Summit in 2000
- ▶ The Monterrey Consensus addressed the financing requirements for sustainable poverty reduction
- ▶ Four High Level Fora on Aid Effectiveness

▶ 2010's

- ▶ WB approves Post Financial Crisis Directions
- ▶ 5 strategic priorities

2. Global Framework for Development Assistance

MDGs, Monterrey & Aid Effectiveness

Millennium Development Goals (1)



Millennium Development Goals (2)

- ▶ Examples of Targets (out of 21)
 - ▶ 1.A: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1.25 a day
 - ▶ 1.C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger
 - ▶ 2.A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
 - ▶ 3.A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
 - ▶ 8.F: In cooperation with the private sector, make available benefits of new technologies, especially information and communications

Millennium Development Goals (3)

► Progress as of June 2012 (extract)

Goals and Targets	Africa		Asia			
	Northern	Sub-Saharan	Eastern	South-Eastern	Southern	Western

GOAL 1 | Eradicate extreme poverty and hunger

Reduce extreme poverty by half	low poverty	very high poverty	moderate poverty	high poverty	very high poverty	low poverty
Productive and decent employment	large deficit in decent work	very large deficit in decent work	large deficit in decent work	large deficit in decent work	very large deficit in decent work	large deficit in decent work
Reduce hunger by half	low hunger	very high hunger	moderate hunger	moderate hunger	high hunger	moderate hunger

GOAL 2 | Achieve universal primary education

Universal primary schooling	high enrolment	moderate enrolment	high enrolment	high enrolment	high enrolment	high enrolment
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GOAL 3 | Promote gender equality and empower women

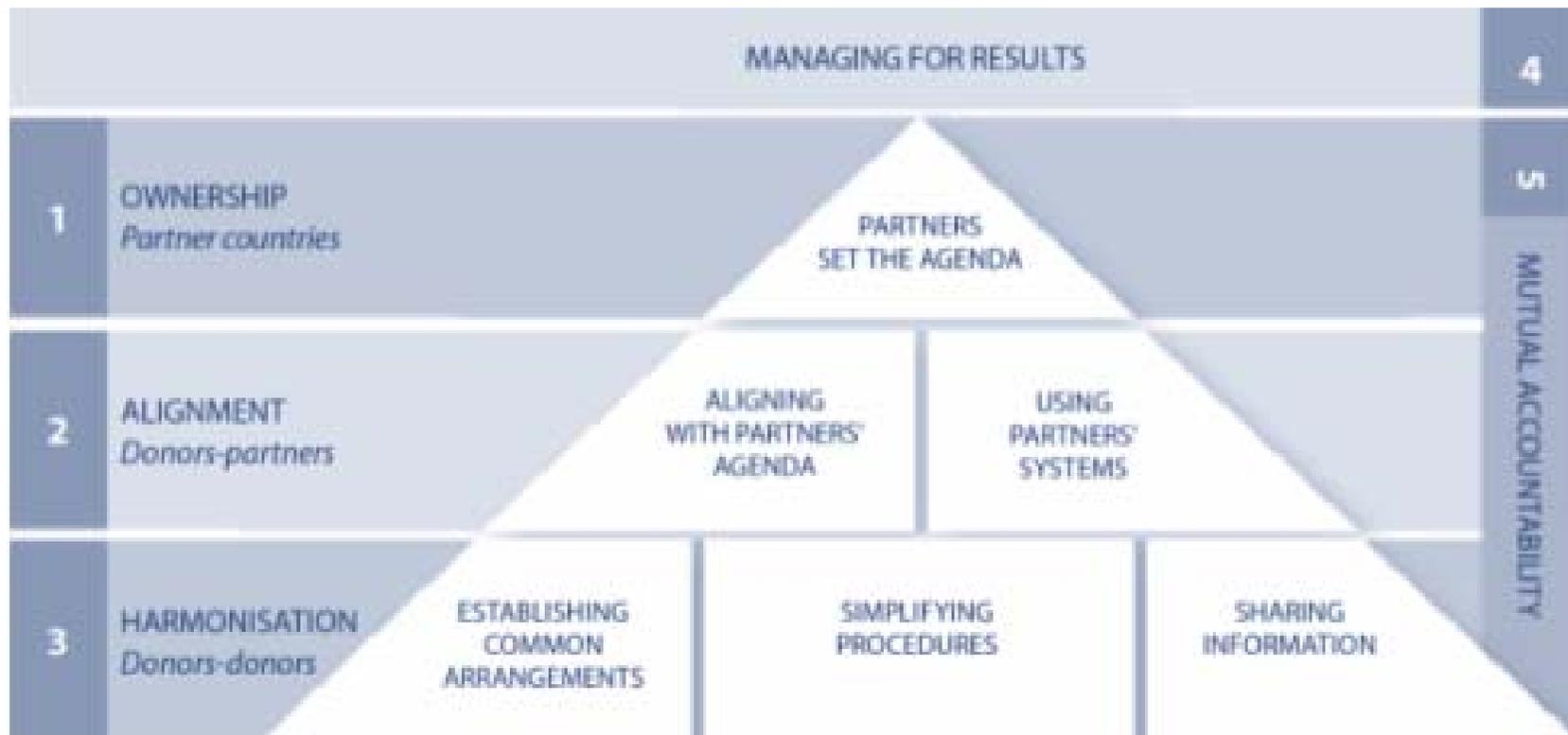
Equal girls' enrolment in primary school	close to parity	close to parity	parity	parity	parity	close to parity
Women's share of paid employment	low share	medium share	high share	medium share	low share	low share
Women's equal representation in national parliaments	low representation	moderate representation	moderate representation	low representation	low representation	low representation

Monterrey Consensus

- ▶ International Conference for Financing and Development in 2002
- ▶ Agreement to increase financing for development from both public and private sources
 - ▶ Greater integration of developing countries into international trading systems
 - ▶ Increasing foreign direct investment (FDI) in developing countries
 - ▶ Raising donor assistance from developed countries to 0.7% of GDP
 - ▶ Improve investment climates, based on sound macroeconomic policies and effective domestic institutions

High Level Fora on Aid Effectiveness (1)

- ▶ 1st HLF Rome 2002
- ▶ 2nd HLF Paris 2005 – Paris Declaration



High Level Fora on Aid Effectiveness (2)

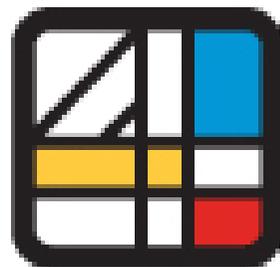
- ▶ 3rd HLF Accra 2008 – Accra Agenda for Action



- ▶ Broadening the stakeholders (e.g. civil society)
- ▶ Takes stock of progress and sets agenda for accelerated advancement towards the Paris targets

High Level Fora on Aid Effectiveness (3)

- ▶ 4th HLF Busan 2011– Busan Partnership for Effective Development Cooperation



부산 세계개발원조총회
**4th High Level Forum
on Aid Effectiveness**
29 Nov –1 Dec 2011, Busan, Korea

- ▶ Broadest range of governmental, civil society, private and other actors
- ▶ Confirm the five Paris Principles
- ▶ Includes also a section on climate change finance

3. Main Financial Channels in Development Cooperation

Aid Agencies, MDBs and DFIs

Aid Agencies

- ▶ **Mainly government and related agencies**
 - ▶ Provide largely grants for technical development assistance (TA), capacity building/development and humanitarian aid
 - ▶ Donations, public sector and civil society
 - ▶ About \$100 billion per year
- ▶ **Examples:**
 - ▶ US Agency for International Development (USAID)
 - ▶ UK Department for International Development (DfID)
 - ▶ Austrian Development Agency (ADA)

Multilateral Development Banks (1)

- ▶ Most provide support mainly to the public sector
 - ▶ IBRD, IDA, Regional Development Banks
 - ▶ Loans, credits, grants, guarantee financing, risk management products
 - ▶ Public sector, mostly large-scale
 - ▶ About \$50-\$100 billion per year
 - ▶ Typically 20-40% would be concessional (below market rates)

Multilateral Development Banks (2)

- ▶ **Lending Terms for World Bank Borrowing**
 - ▶ Different terms based on country income level and creditworthiness
 - ▶ IDA credits have no interest rate, only a small service charge and a commitment fee on undisbursed balances
 - ▶ Repayment period for IDA credits varies from 20-40 years, with a 10 year grace period
 - ▶ Low income debt-distressed countries may qualify to receive all or part of their IDA financing on grant terms
 - ▶ IBRD loans are low cost and predictable. Borrowers have a range of options with respect to repayment terms and currencies

Multilateral Development Banks (3)

- ▶ Sources of Funding for IDA Credits and Grants
 - ▶ Donor governments
 - ▶ Transfers from IBRD's net income
 - ▶ Grants from IFC
 - ▶ Borrower's repayments of earlier IDA credits
- ▶ Source of Funding for IBRD Loans
 - ▶ Most funding is raised through bond issues in international capital markets (AAA rating)
 - ▶ Backed by a strong capital structure (subscribed capital, reserves and surplus)

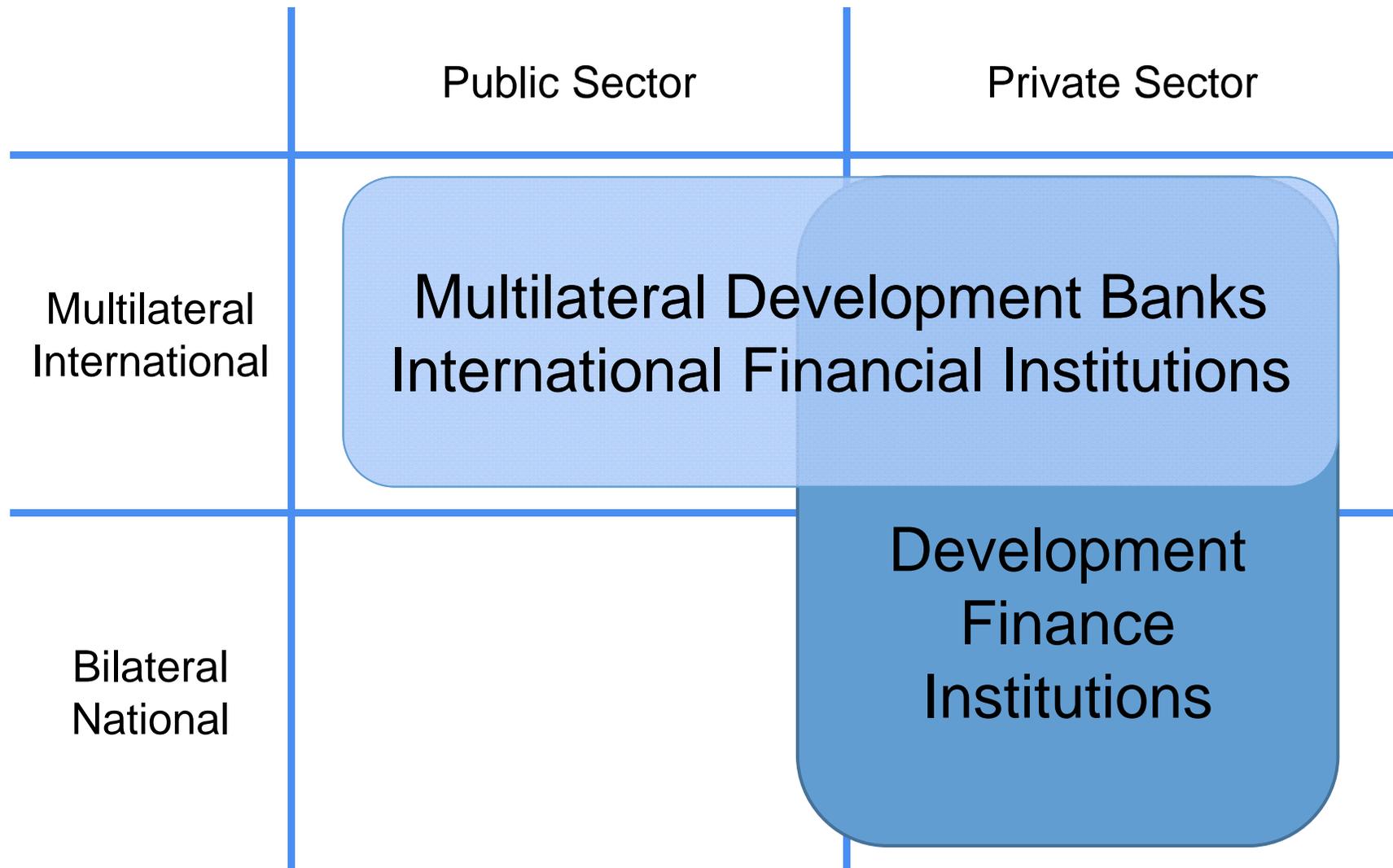
Development Finance Institutions

- ▶ Provide support to the private sector
 - ▶ Include bilateral DFIs (e.g. OeEB) and private sector arms of MDBs (e.g. IFC)
 - ▶ Equity, loans and guarantees, political risk insurance
 - ▶ Technical support through Advisory Services/Programs
 - ▶ Catalyzing co-investment and expertise
 - ▶ About \$40 billion per year

4. World of Development Banks

Terminology, Examples, Comparisons

Development Banks Terminology (1)



Development Banks Terminology (2)

- ▶ Multilateral Development Banks (MDBs)
= International Financial Institutions (IFIs)
 - ▶ Shareholder Base
 - ▶ Global (WBG)
 - ▶ Regional (e.g. AfDB, ADB, IDB, EBRD)
 - ▶ Sub-regional (e.g. BSTDB, DBSA, BOAD)
 - ▶ Sectorial Focus
 - ▶ Public Sector (e.g. IBRD, AfDB, ADB, IDB)
 - ▶ Private Sector (e.g. IFC, EBRD)
- ▶ Development Finance Institutions (DFIs)
 - ▶ Shareholder Base
 - ▶ Multilateral (e.g. IFC, EBRD)
 - ▶ Bilateral (e.g. EDFIs)

Examples of Development Banks (1)

- ▶ MDBs with Private Sector Operations (not exhaustive list)
 - ▶ Africa Development Bank (AfDB)
 - ▶ Asian Development Bank (ADB)
 - ▶ Black Sea Trade and Development Bank (BSTDB)
 - ▶ Development Bank of Latin America (CAF)
 - ▶ European Bank for Reconstruction and Development (EBRD)
 - ▶ European Investment Bank (EIB)
 - ▶ Inter-American Development Bank (IDB)
 - ▶ Inter-American Investment Corporation (IIC)
 - ▶ International Finance Corporation (IFC)
 - ▶ Islamic Corporation for Development of the Private Sector (ICD)
 - ▶ Multilateral Investment Fund (MIF)
 - ▶ Multilateral Investment Guarantee Agency (MIGA)
 - ▶ Nordic Investment Bank (NIB)
 - ▶ OPEC Fund for International Development (OFID)

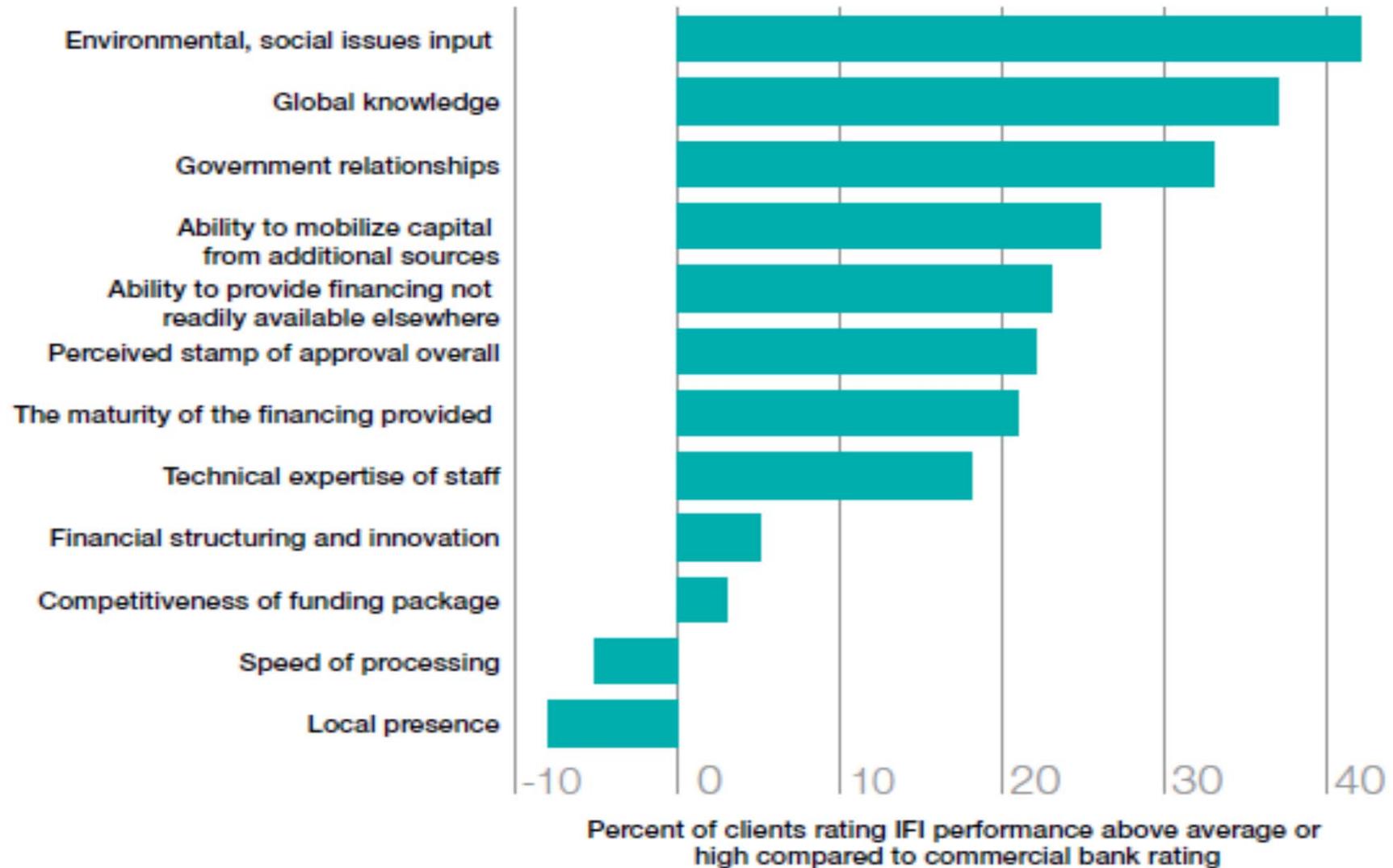
Examples of Development Banks (2)

- ▶ Bilateral DFIs with Private Sector Operations
 - ▶ Belgian Corporation for International Investment (SBI-BMI)
 - ▶ Belgian Investment Company for Development Countries (BIO)
 - ▶ CDC Group (British DFI)
 - ▶ COFIDES (Spanish DFI)
 - ▶ Danish Industrialization Fund for Developing Countries (IFU)
 - ▶ DEG (German DFI)
 - ▶ Development Bank of Austria (OeEB)
 - ▶ Entrepreneurial Development Bank of the Netherlands (FMO)
 - ▶ Finnish Fund for Industrial Cooperation (Finnfund)
 - ▶ French Investment and Promotions Company for Economic Cooperation (Proparco)
 - ▶ Japan Bank for International Cooperation (JBIC)
 - ▶ Norwegian Investment Fund for Developing Countries (Norfund)
 - ▶ Overseas Private Investment Corporation (OPIC, US)
 - ▶ SIMEST (Italian DFI)
 - ▶ SOFID (Portuguese DFI)
 - ▶ Swedfund
 - ▶ Swiss Investment Fund for Emerging Markets (SIFEM)

Examples of Development Banks (3)

- ▶ **Bilateral Development Banks**
 - ▶ Bhutan Development Finance Corporation
 - ▶ Banco Nacional de Desenvolvimento Economico e Social (BNDES, Brazil)
 - ▶ Business Development Bank of Canada (BDC)
 - ▶ China Development Bank
 - ▶ Croatian Bank for Reconstruction and Development (HBOR)
 - ▶ Fiji Development Bank
 - ▶ Finnvera plc (Finland)
 - ▶ Kreditanstalt für Wiederaufbau (KfW)
 - ▶ Development Bank of the Philippines
 - ▶ Rwanda Development Bank (BRD)
 - ▶ Uganda Development Bank Lt.
 - ▶ Development Bank of Turkey

IFIs/MDBs vs. Commercial Banks



Public Sector vs. Private Sector Finance

Recipient of financing Instrument used by IFI	Public Sector (government entity or SOE)	Private Sector (privately owned company)
Debt finance (loans)	may include a subsidy element depending on country income level and creditworthiness	mostly close to market terms
Equity investment	generally not used	precious risk capital with certain expected return for multiple use (revolving fund)
Grants	e.g. used to help generate bankable projects	used to improve development effects and decrease risk premium



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Overview of Presentations

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Veronika Baumgartner

- ▶ Public Sector Financing and the Asian Development Bank and Fund
 - ▶ Asian Development Bank (ADB)
 - ▶ Asian Development Fund (AFD)
 - ▶ Myanmar
 - ▶ ADB Results Measurement



Klaus Friesenbichler

- ▶ Private Sector Development (PSD) World Bank Operations in Practice
 - ▶ How is PSD put into practice?
 - ▶ How do projects 'emerge'?
 - ▶ What is the project cycle and how does it work?



Gerhard Gunz

- ▶ The World Bank Group – Governance Structures and Shareholder Interests
 - ▶ Institutions
 - ▶ Governance
 - ▶ Formal set up vs. real politics



Judith Pauritsch

- ▶ Development Banks and Social & Environmental Standards
 - ▶ Focus on private sector finance
 - ▶ Do no harm / do good
 - ▶ Potential negative impacts and mitigation hierarchy
 - ▶ Standards and their limitations
 - ▶ How to apply standards along the project cycle



Reinhard Wagner

- ▶ Measuring Development Results and Impact
 - ▶ Results Frameworks
 - ▶ Impact logic of projects and programs
 - ▶ Examples



Daniel Pajank

- ▶ Closing
 - ▶ Synthesis
 - ▶ Way Forward
 - ▶ Job Opportunities



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