Caretas

Annual Meetings of the WB-IMF

SPECIAL REPORT

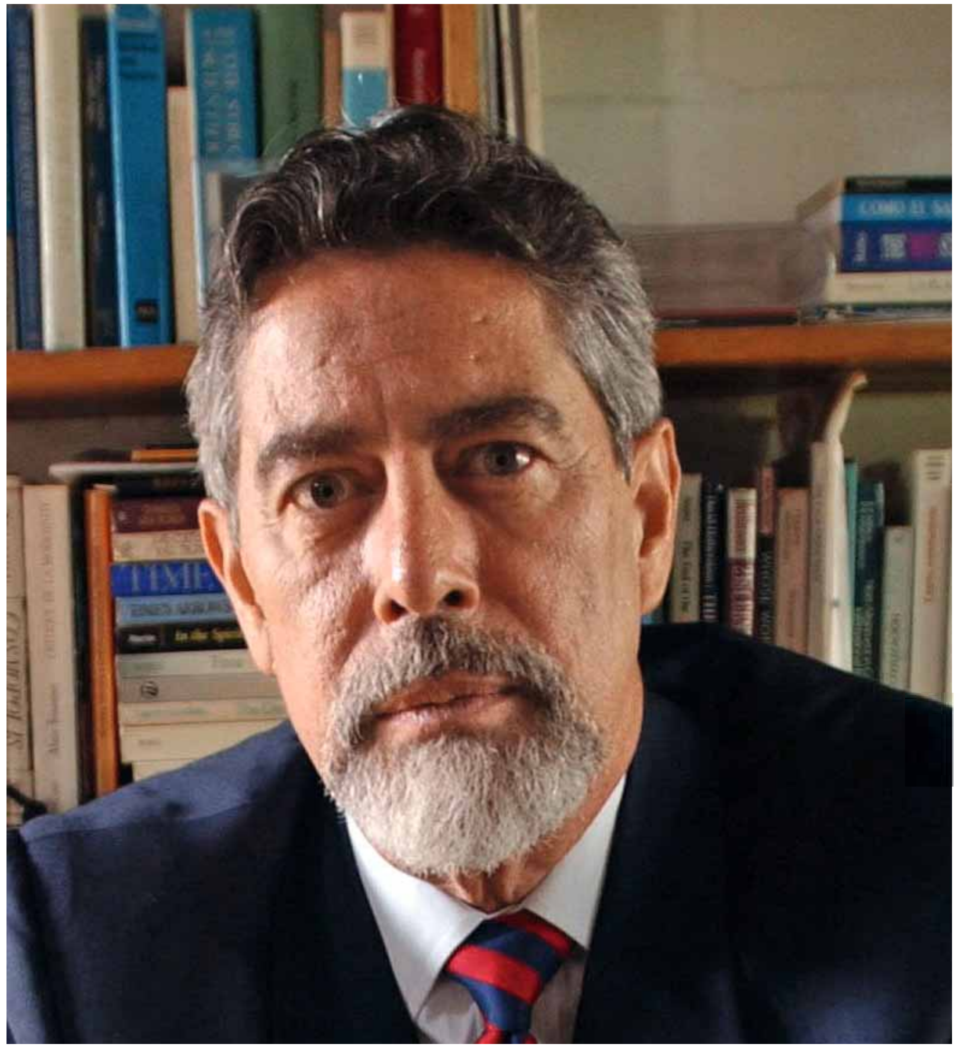
Dancing or bending? Christine Lagard, Managing Director of the IMF in Peru.

WB Report IMF

BREAKING POINT

Annual Meetings of the WB-IMF begins at a critical time for the world economy.

China experiencing an economic downturn, Brazil in recession and sluggish growth everywhere, the Annual Meetings of the Board of Governers of the World Bank Group and the International Monetary Fund in Lima take place at a critical moment for the world economy. International finance is in crisis and multilateral institutions will play a key role in development finance. Multilateral development banks face major political and economic challenges. This is the context for the discussions that will take place in our capital during the next days. This Special Report editted by CARETAS examines the prospects for development finance from the perspective of eight selected invitees, four of them —Rebeca Grynspan, Jose Antonio Ocampo, Nancy Birdsall and José Antonio Alonso— leading international experts, and four Peruvians who have occupied key positions in international financial institutions: Roberto Dañino, Richard Webb, Raul Salazar and Francisco Sagasti, who collaborated in the preparation of this report.

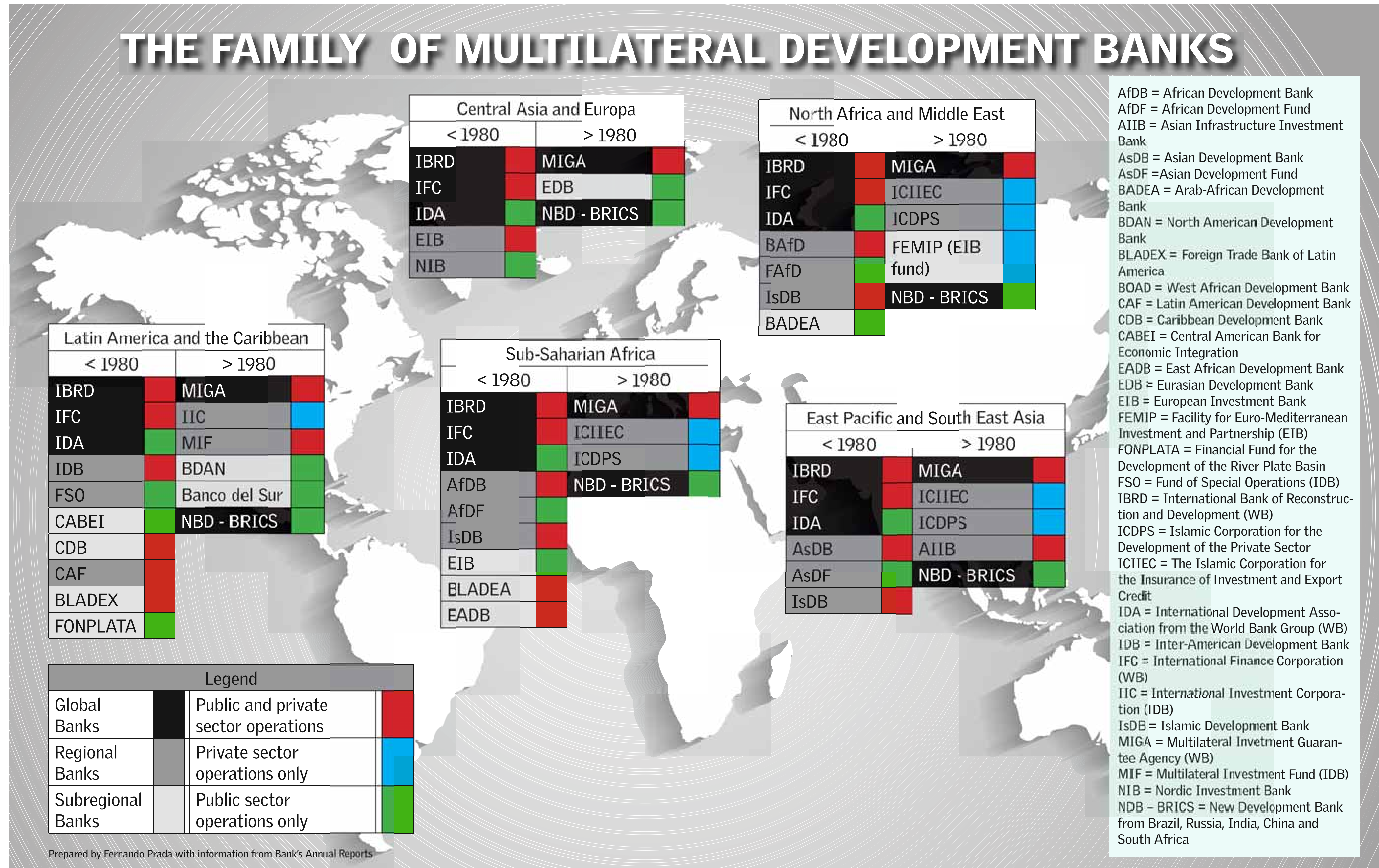


Francisco Sagasti, ex Chief of Strategic Planning at the World Bank

MULTILATERAL DEVELOPMENT BANKS

An Enduring Institutional Innovation

Multilateral development ba nks have continuously reinvented their mission.



THE FAMILY OF MULTILATERAL DEVELOPMENT BANKS

Central Asia and Europa	
< 1980	> 1980
IBRD	MIGA
IFC	EDB
IDA	NBD - BRICS
EIB	
NIB	

North Africa and Middle East	
< 1980	> 1980
IBRD	MIGA
IFC	ICIIEC
IDA	ICDPS
BAfD	FEMIP (EIB fund)
FAfD	
IsDB	NBD - BRICS
BADEA	

Latin America and the Caribbean	
< 1980	> 1980
IBRD	MIGA
IFC	IIC
IDA	MIF
IDB	BDAN
FSO	Banco del Sur
CABEI	NBD - BRICS
CDB	
CAF	
BLADEX	
FONPLATA	

Sub-Saharian Africa	
< 1980	> 1980
IBRD	MIGA
IFC	ICIIEC
IDA	ICDPS
AfDB	NBD - BRICS
AfDF	
IsDB	
EIB	
BLADEA	
EADB	

East Pacific and South East Asia	
< 1980	> 1980
IBRD	MIGA
IFC	ICIIEC
IDA	ICDPS
AsDB	AIIB
AsDF	NBD - BRICS
IsDB	

Legend	
Global Banks	Public and private sector operations
Regional Banks	Private sector operations only
Subregional Banks	Public sector operations only

Prepared by Fernando Prada with information from Bank's Annual Reports

AfDB = African Development Bank
AfDF = African Development Fund
AIIB = Asian Infrastructure Investment Bank
AsDB = Asian Development Bank
AsDF =Asian Development Fund
BADEA = Arab-African Development Bank
BDAN = North American Development Bank
BLADEX = Foreign Trade Bank of Latin America
BOAD = West African Development Bank
CAF = Latin American Development Bank
CDB = Caribbean Development Bank
CABEI = Central American Bank for Economic Integration
EADB = East African Development Bank
EDB = Eurasian Development Bank
EIB = European Investment Bank
FEMIP = Facility for Euro-Mediterranean Investment and Partnership (EIB)
FONPLATA = Financial Fund for the Development of the River Plate Basin
FSO = Fund of Special Operations (IDB)
IBRD = International Bank of Reconstruction and Development (WB)
ICDPS = Islamic Corporation for the Development of the Private Sector
ICIIEC = The Islamic Corporation for the Insurance of Investment and Export Credit
IDA = International Development Association from the World Bank Group (WB)
IDB = Inter-American Development Bank
IFC = International Finance Corporation (WB)
IIC = International Investment Corporation (IDB)
IsDB = Islamic Development Bank
MIGA = Multilateral Invetment Guarantee Agency (WB)
MIF = Multilateral Investment Fund (IDB)
NIB = Nordic Investment Bank
NDB – BRICS = New Development Bank from Brazil, Russia, India, China and South Africa

By **FRANCISCO SAGASTI***

Nearly a hundred years ago, after World War I, John Maynard Keynes outlined the elements of what would become, three decades and another World War later, the first multilateral development bank (MDB): the International Bank for Reconstruction and Development, now the World Bank. A surprisingly enduring institutional innovation, it has led to the creation of about twenty-five MDBs, most recently the New Development Bank (NDB) in 2014, and the Asian Infrastructure Investment Bank (AIIB) in 2015.

Key features that made MDBs a winning proposition are: government ownership, resource pooling, weighted voting rights, preferred creditor status, a distinction between "authorized" and "paid in" capital, a one-to-one gearing ratio between authorized capital and outstanding loans, innovation in mobilizing and disbursing financial resources, and provision of support to borrowers. Member countries commit to provide a share of the total authorized capital of an MDB, but pay only a small portion in cash. MDBs raise funds by issuing bonds in international capital markets with lower risk and on better terms than most of their borrowing countries, add a mark-up to cover administrative costs, and lend the amounts raised to their borrowers. Exceptionally low gearing ratios, together with diversified borrower portfolios and technical expertise, reassure MDB bondholders who accept lower returns than riskier financial assets.

Over time MDBs created windows for investing in the private sector, usually with government guarantees, and for provid-

"The countries in a position to lend assistance ... must provide [to] all the belligerent countries of continental Europe, allied and ex-enemy alike... a fund of $1,000,000,000 ... [which] should be lent and borrowed with the unequivocal intention of its being repaid in full, [ranking] both for payment of interest and capital, in front of all Government indebtedness. ... Expenditure out of the loan should be subject to general, but not detailed, supervision by the lending countries. ... A guarantee fund [could be] established up to an equal amount (of which it would probably prove necessary to find only a part in cash), to which all members of the League of Nations would contribute according to their means."
John Maynard Keynes, *The Economic Consequences of Peace, 1920.*

*Professor, Graduate School, Universidad del Pacífico. Has been visiting professor at the Wharton School and the Instituto de Empresa, Chief of Strategic Planning at the World Bank, and Chairman of the UN Advisory Commitee on Science and Technology.

Wall Street and comercial banks are nor the main source of development finance because of low interest rates.

ing low-interest long-term loans to the poorest countries, funded largely by grant facilities replenished periodically by their richer member countries. The World Bank also established guarantee and investment dispute resolution mechanisms, and bundled its loans with technical assistance, capacity building, policy advice and institutional reform components. MDBs obtain their net income (profits) from interest payments on outstanding loans and from investments in capital markets, and use them to bolster reserves and fund the provision of international public goods (support for agricultural research, environmental protection, compilation and dissemination of statistical information, publications

"Exceptionally low gearing rations, diversified portfolios and technical expertise reassure MDB bondholders".

and training programs).

MDBs have reinvented their mission continuously, shifting loans from one sector to another, introducing financial innovations, broadening their range of services, and modifying conditions for access to their loans (read Webb, Dañino and Birdsall). Yet, they have not been extent of controversy. An initial restriction to use loans for purchasing goods and services in countries that gave MDBs access to their capital markets, or provided grants for soft loans, was eventually eliminated. More problematic was the imposition of policy reforms as a condition for access to loans and grants —so called "adjustment" lending—, which forced borrowers to adopt economic policies that helped correct economic imbalances, but often times proved dubious and ineffective.

Weighted voting favored countries that initially subscribed larger shares of capital, provided grants for soft loans and offered access to their financial markets. Yet, during the last two decades tensions emerged as the relative size of the output and savings of the world's key economies changed, but the shares and voting power of member countries remained practically unaltered (particularly at the World Bank). This sparked the creation of other MDBs, including the AIIB, where China holds a majority share, and the NDB in which Brazil, Russia, India, China and South Africa have equal shares and voting power.

The World Bank and, to a lesser extent, other MDBs differentiate access to their lending instruments according to income per capita; as it grows, borrowing countries "graduate" from soft (longer-term low-interest) loans, to blend loans with slightly harder conditions, and to regular (shorter-term higher-interest) loans. It was never expected that borrowing countries would continuously receive positive net transfers (disbursements less repayments); as they move from the low to the middle and high-income categories, direct access to international capital markets and foreign investment would obviate the need for MDB loans. Yet, most middle and high-income countries kept on borrowing small amounts. In addition to help MDBs in maintaining a diversified portfolio of good payers, MDB loans provide access to technical expertise and are an insurance policy for bad times. The Republic of Korea graduated to regular loans in the late 1970s, had good access to international capital markets, and could do without MDB funding; however, during the 1997-1998 Asian financial crisis, when market access disappeared, the World Bank steadied its economy with adjustment loans worth a total of $7 billion.

MDBs now face several challenges (read Grynspan, Birdsall, Ocampo and Alonso). As the ranks of middle-income countries grow, some of them are focusing on less creditworthy borrowers than make their loan portfolios riskier, and dwindling net incomes and growing budget pressures demand efficiency improvements. New

"MDBs face challentes as the number of middle-income countries that not need them grows".

issues —climate change, migrations, knowledge divide, Sustainable Development Goals— will strain their financial and analytic capabilities; a greater emphasis on the provision of international public goods will force them to find new ways of financing their provision. Juggling competition, cooperation and complementarities MDBs must learn to operate as a system.

Frequently attacked from the right and left, during seven decades the World Bank and its MDB siblings have managed to remain both a "bank" and a "development agency", combining financial rigor with effective support, steering a course that has proved to be of significant benefit to all its members —and hopefully will continue on doing so. ■

The New Asian Infrastructure Investment Bank forces governance reforms at the Bretton Woods institutions.

The Future of International Financial Institutions

The Asian tigers, led by Shanghai, redefine the development financing paradigm.

By
JOSÉ ANTONIO OCAMPO*

There are two things that have been made clear by the creation of the Asian Infrastructure Investment Bank, the New Development Bank, and BRICS Contingent Reserve Agreement. The first is the role that continues to be fulfilled by international financial institutions in a world dominated by private capital flows. The second is the need to reform the governance of the Bretton Woods institutions: the World Bank and the International Monetary Fund.

The basic reason for the first is the pro-cyclical nature of private capital flows: abundance during booms, followed by interruptions

and high costs during stages of contraction. This fact has been obvious to emerging and developing economies for half a century, and it has also become clear to the European periphery since the North Atlantic crisis of 2007-2009.

During phases of cyclical downturn, international financial institutions are called on to provide financing to countries facing reductions in their private sources. This function is clear in the case of the financing of payment balances, the fundamental task of the International Monetary Fund, but also that of regional institutions such

*Professor at Columbia University. Has been Under Secretary for Economic and Social Affairs at the UN, Executive Secretary of the UN Economic Commission for Latin America, and Minister of Finance of Colombia.

as the Latin American Reserve Fund.

Multilateral development banks also fulfill this function, as some of them (the Development Bank of Latin America-CAF) have recognized for some time now, and as was explicitly recognized by the World Bank during the North Atlantic crisis. Effectively, these regional institutions and development banks significantly expanded their financing during this crisis.

> "The Chinese initiative to create the new Asian MDB is a response the the US reluctance to the governance problems of the Bretton Woods institutions"

MDB should harmonize environment and growth objectives.

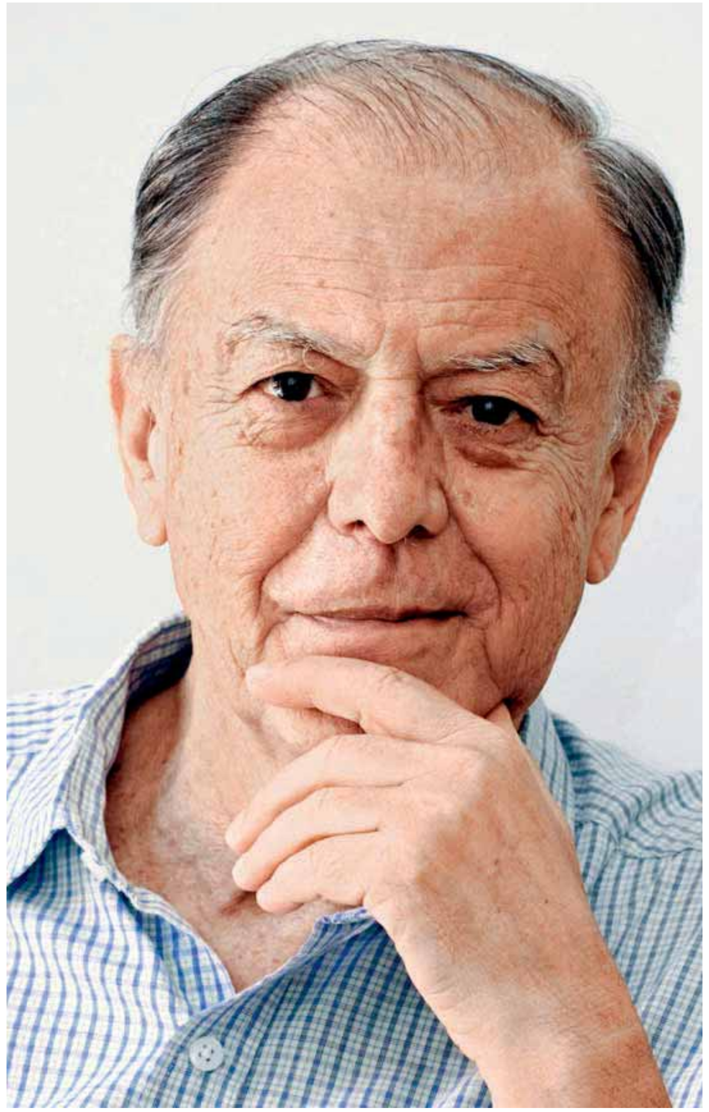
Aside from this anticyclical function, development banks also fulfill other traditional and emerging functions. The former include financing for sectors (the social and environmental sectors, for example), and for countries that lack access to private capital markets in favorable terms, as well as the generation of knowledge about developing economies.

Among the emerging functions, recognition has once again been given in recent years to the developing world's great needs in infrastructure, and to the actions necessary for climate change mitigation and adaptation. In the case of infrastructure, the private sector can play a role, but the complementary support of multilateral banks or their financial corporations can act as a critical leveraging mechanism for project financing, along with instruments to hedge the risks faced by private investors, including political and regulatory risks.

With regards to governance, the fundamental problem continues to be that of developed countries' disproportionate participation in the capital and voting power of the Bretton Woods institutions, which is no longer consistent with their participation in the global economy, especially in the case of the European countries. Added to that is the United States' reluctance to contribute resources to these institutions, dooming them to stagnation. The Chinese initiative for the creation of the new Asian Infrastructure Investment Bank, as well as that of Brazil, Russia, China, India and South Africa for the creation of the New Development Bank and their Contingent Reserve Agreement, are responses to this scenario. While these initiatives are aimed more at competing with the Bretton Woods institutions than at reforming them, their reform remains an essential process.

Beyond this, one of the fundamental objectives at the institutional reform of international financial institutions must be the creation of "dense" support networks for countries. This is already occurring in the case of multilateral development banking, where, aside from the World Bank, there exists a network of regional—and some subregional and interregional—banks (e.g. the Islamic Development Bank, and now, the BRICS' New Bank).

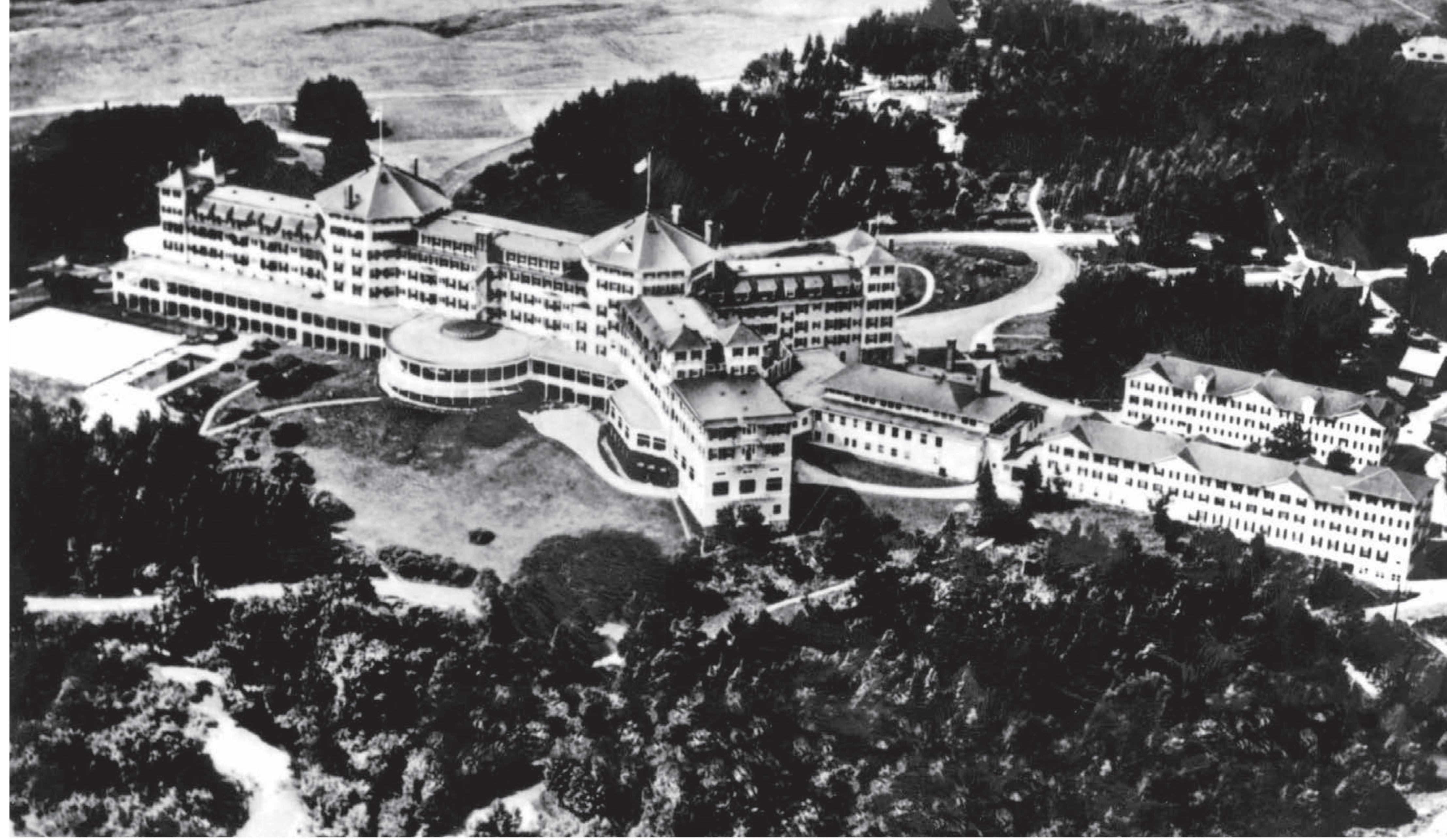
The same does not hold true for the case of monetary institutions, where, aside from the IMF, there are very few regional or interregional institutions. The BRICS Contingent Agreement and the European Stability Mechanism are important additions, but they must be complemented by others, among them a true Latin American Monetary Fund that could evolve from the existing Latin American Reserve Fund. ■



Richard Webb wrote the history of the World Bank.

The World Bank and Poverty

Life and deeds after seven decades of existence.

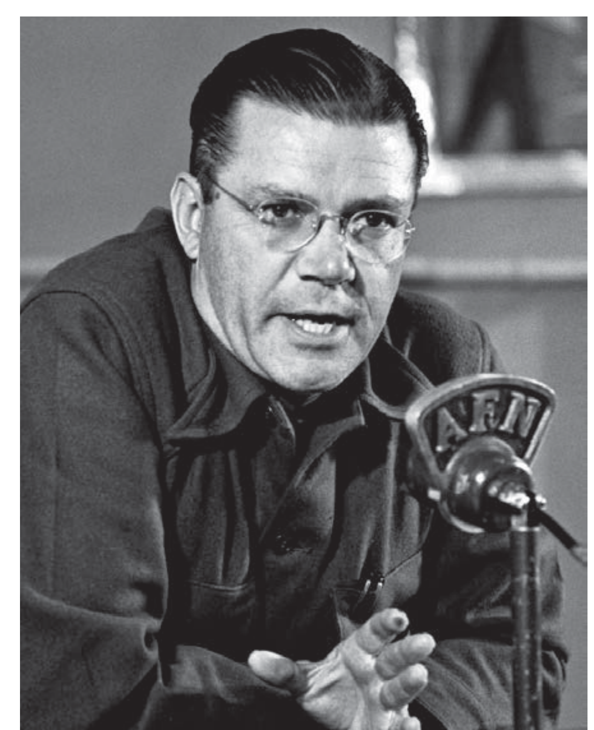


Mount Washington historical hotel in Bretton Woods, New Hampshire, where the IMF and the World Bank were founded in 1944. Below, Robert McNamara broke the taboo of the word poverty.

By **RICHARD WEBB***

In the crusade against Third World poverty, the World Bank's track record is notable for its duration (71 years), scope (172 countries), technical professionalism, and because its model helps prioritize production growth above palliative handouts. It is surprising, then, that when delving into the Bank's history, we discover that the original proposal for its creation made no mention at all of a role in providing aid to poor countries.

*Director, Instituto del Perú at the University of San Martín de Porres. Ex Governor of the Central Reserve Bank, economist at the World Bank, and co-author of the history of the World Bank.



"During its first decades, the word poverty was a taboo for the WB. The reason was not ideological, but practical."

In an early draft, its name was the "International Bank for Reconstruction," and its function that of reconstructing the countries destroyed by World War II, primarily in Europe. The term "development" was nowhere to be found. The draft was approved at the international conference held in Bretton Woods in 1944, whose principal objective was creating the International Monetary Fund. Third World poverty was not on the minds of John Maynard Keynes of Great Britain or Harry White of the United States, the two driving forces behind the conference. Both men stressed Europe's reconstruction as the principal goal, although they accepted the fact that, after this task was achieved, the Bank could dedicate its efforts to other countries.

But this dedication to "other countries" began earlier than expected, and the cause was the abrupt beginning of the Cold War. The first communist aggressions occurred in Europe, in response to which the U.S. implemented the Marshall Plan, multiplying economic aid to the region, no longer in the form of loans, but donations. The effect was to supplant the recently created World Bank, which then began to seek clients in other regions.

"The dedication to other countries began earlier than expected, and the cause was the abrupt beginning of the Cold War."

John M. Keynes and Harry White, architects of the 1944 conference.

This change of plans led the Bank to hire economists. These professionals had been practically absent from the original Bank, and those few on the staff were often ridiculed by the bankers running the institution. Two of the pioneers of development economics, Paul Rosenstein-Rodan and Albert Hirschman, were hired early on, but didn't last long. The bankers and the economists couldn't see eye-to-eye, and the Bank began to curtail the economists' role after five years.

Nevertheless, over the course of time the search for a new clientele had the opposite effect. For the Bank, this exploration became a learning experience on the cultural, social, and political reality of the developing world. Teams of professionals set off around the globe to discover the particularities and needs of a growing number of countries—a number that increased even further with the wave of decolonization—, so that they could then advise the Bank on its credit decisions. The market for loans to low-income countries opened slowly. After ten years of existence, the Bank's most important client was Australia. Only after reaching this milestone a Third World country —India— would become its main client.

During its first few decades of existence, the word "poverty" was taboo for the Bank. The reason was not ideological, but practical: the Bank was born practically penniless. Its capital consisted of payment commitments by member countries, most of which were broke after the war. To finance its activities, the Bank was forced to turn to Wall Street. In the United States, those were times when everything foreign was looked upon with suspicion. The Bank was still an unknown entity, and almost nothing was known about the countries that would become its clients. Thus, out of financial necessity was born the credit model that became the Bank's mark of distinction for many years, namely, credits only for works of visible productivity. Railways, dams, smelting plants, electric plants, and roads were the kinds of investments that reassured Wall Street investors. There was no talk of education or health, to say nothing of poverty.

The globalization of the Cold War affected the Bank in other ways. The Marshall Plan spread worldwide, sending aid to non-European countries, softening credit conditions, and opening the door for investments that consisted not of cement and steel, but education, health, and cooperatives. The World Bank's institutional model later multiplied at the regional level, starting with the Inter-American Development Bank in 1959.

Finally, in 1968 Robert McNamara was put in charge of the Bank, after having led the war in Vietnam. The first thing he did was to break the taboo against the word "poverty." In his twelve years at the Bank, the entity became a leader in the war against poverty, finally fulfilling the words of President Roosevelt when he inaugurated the Bretton Woods Conference: "Economic diseases are highly communicable. It follows, therefore, that the economic health of every country is a proper matter of concern to all its neighbors, near and distant". ■

The Development Agenda Post-2015

How to finance the Sustainable Development Goals?

By
REBECA GRYNSPAN*

This year will be a historic one in rethinking and reshaping the global agenda on sustainable development. The definition of the post-2015 objectives, which will likely be a major issue at the World Bank and the International Monetary Fund (IMF) meetings in Lima, will create new standards and new paradigms for public policies to guide governments' decisions over the next fifteen years.

This discussion takes place in an international context completely different from that of the turn of the century: over the last two decades, developing economies have doubled their contribution to the world's Gross Domestic Product, as well as their participation in international trade. Capital flows to developing economies tripled during this time, now accounting for 50% of the total. Major social changes have altered the relationship between those who govern and the governed, opening spaces for opinion, participation, and organization that would have seemed almost unthinkable fifteen years ago. All of this has modified the nature of intergovernmental relations and the dynamics underlying the establishment of shared development objectives.

As a result, the post-2015 development agenda exhibits important differences compared to the process and contents of the Millennium Development Goals (MDGs): firstly, this agenda is the product of much more consensual intergovernmental negotiation efforts, in which countries have reached agreements following a more complex, but also more inclusive, process. Secondly, it is a universal agenda that focuses not only on developing countries' responsibilities, but generates commitments for all governments. Finally, it is an agenda much more concerned with sustainability, whether environmental, social, economic, or political. It is an agenda that has given a greater role to the environment —without exhausting or substituting the climate change agenda— along with topics of gender, youth, sustainable cities, work, peace, and justice.

All of these changes are positive, particularly for Latin American countries, which have fought hard to make the debate on development more comprehensive, but also more horizontal, more capable of functioning in diverse situations, and more favorable for generating trust and solidarity among governments that, despite their differences, are experiencing common and interrelated challenges.

Capital flows to developing countries tripled since 2000.

Poverty reduction and sustainable development are the new UN development goals.

Beyond the political achievement evidenced by the promotion of a new global development agenda, however, there are persistent concerns of a practical nature with regard to how that agenda's objectives will be implemented, and especially, how they will be financed.

In terms of implementation, the developed world's responsibilities cannot be evaded, although it is clear, at the same time, that developing countries have their work cut out for them. Both access to financing, and the use of that financing, will largely be determined by the ability to generate institutional and investment contexts that bolster the effectiveness of programs and the profitability of projects. In this regard, Latin America still has a long way to go: the region has made little progress in improving the investment climate, despite considerable gains at the macroeconomic level. The task of improving the production structure still poses a challenge: substantially elevating our economies' competitiveness and achieving a true revolution in productivity, in order to prevent Latin America from falling behind compared to other parts of the globe.

This goes beyond merely modernizing infrastructure or simplifying processes, although these, too, are necessary. It means constructing an environment that allows for the transformation of our countries' production units and production matrix, a transformation to lead us to schemes of higher added value, rooted in innovation, knowledge transfer, and science and technology. We need a region that is much more skilled at detecting and making the most of talent; a region that will not only allow for the healthy functioning of the private sector, but one that fosters another type of relationship—more dynamic, more collaborative—among the private sector, the public sector, academia, and society.

At the international level, it must be emphasized that our responsibilities —like our challenges— are shared by all, and go far beyond an approach focused strictly on monetary commitments, although there is no arguing that these must be honored.1 Equally as important as procuring financing is ensuring that it is distributed fairly, that the agenda's implementation does not perpetuate the shameful inequalities of the past. It is vital that the new global objectives — and the financing that makes possible their implementation— attend to the disparate effects that the policies have on minorities and traditionally excluded groups. In the post-millennium agenda, governments will have the obligation to go beyond averages, to break down the results and act much more deliberately in achieving better outcomes with regard to gender, youth, and vulnerable populations.

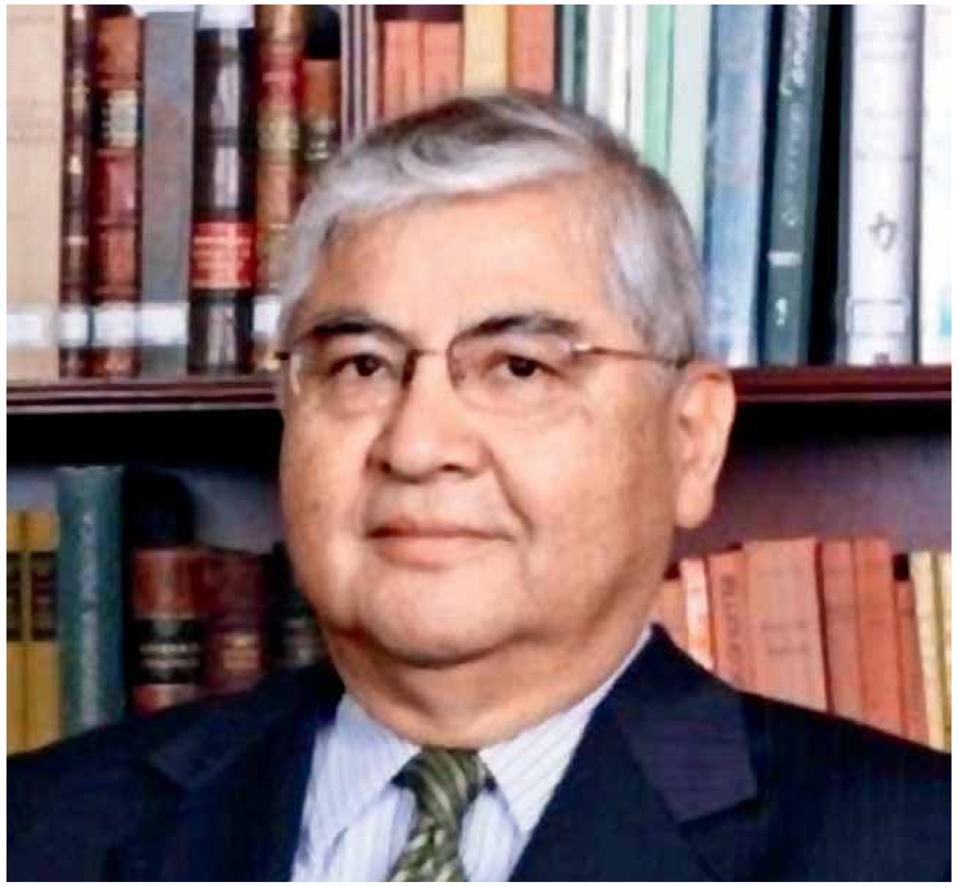
All of this requires the proper mobilization of resources and equal access to financing; requires technical cooperation and knowledge transfer; requires assistance on capacity building and coherent international policies (for example, in the area of trade and technology transfer); requires innovative and flexible cooperation. This agenda is a much more ambitious one, while at the same time —maintaining the virtue of the MDGs— strategically focused. The agenda itself demonstrates that humanity is united by common dreams, and demands, in a single voice, that governments prove themselves capable of solidarity and collaboration in the pursuit of those dreams. ■

* Iberoamerican General Secretary. Has been Under Secretary General of the UN and Associate Administrator of the UNDP, Director of the UN Economic Commission for Latin America in Mexico, and Vice-President of Costa Rica.

1 The current volume of official resources for development from industrialized economies is below (0.3%) the commitments assumed in the Millennium Development Goals (0.7%).

Where is the IMF Headed?

It is necessary to free technical activities from political influence.



Raúl Salazar Olivares: how to keep the integrity of the IMF.

By **RAÚL SALAZAR OLIVARES***

THE Annual Meetings of the International Monetary Fund (IMF) and the World Bank comes at a difficult time for this institution, which is grappling with credibility problems, criticism of its work, and uncertainty regarding its future.

The IMF fulfills two main functions: assisting member countries facing difficulties to honor their international payment commitments (through loans conditioned on the application of adjustment programs and economic reforms); and supervising and providing timely alerts regarding the economic evolution of its member countries. It has run into trouble in fulfilling both of these duties.

Forcing governments to implement fiscal adjustment programs and economic reforms is an unpopular task. In carrying out this first duty, the IMF has received harsh criticism, above all for its rigid insistence on adjustment programs that lead to decreases in economic activity. Nevertheless, in most cases this criticism has been unfair, at least in part. Generally speaking, countries incur in macroeconomic imbalances and foreign exchange difficulties due to the application of mistaken economic policies and fiscal irresponsibility. In such cases, the ones at fault are the governments that caused the problems by failing to identify their mistakes and taking corrective measures.

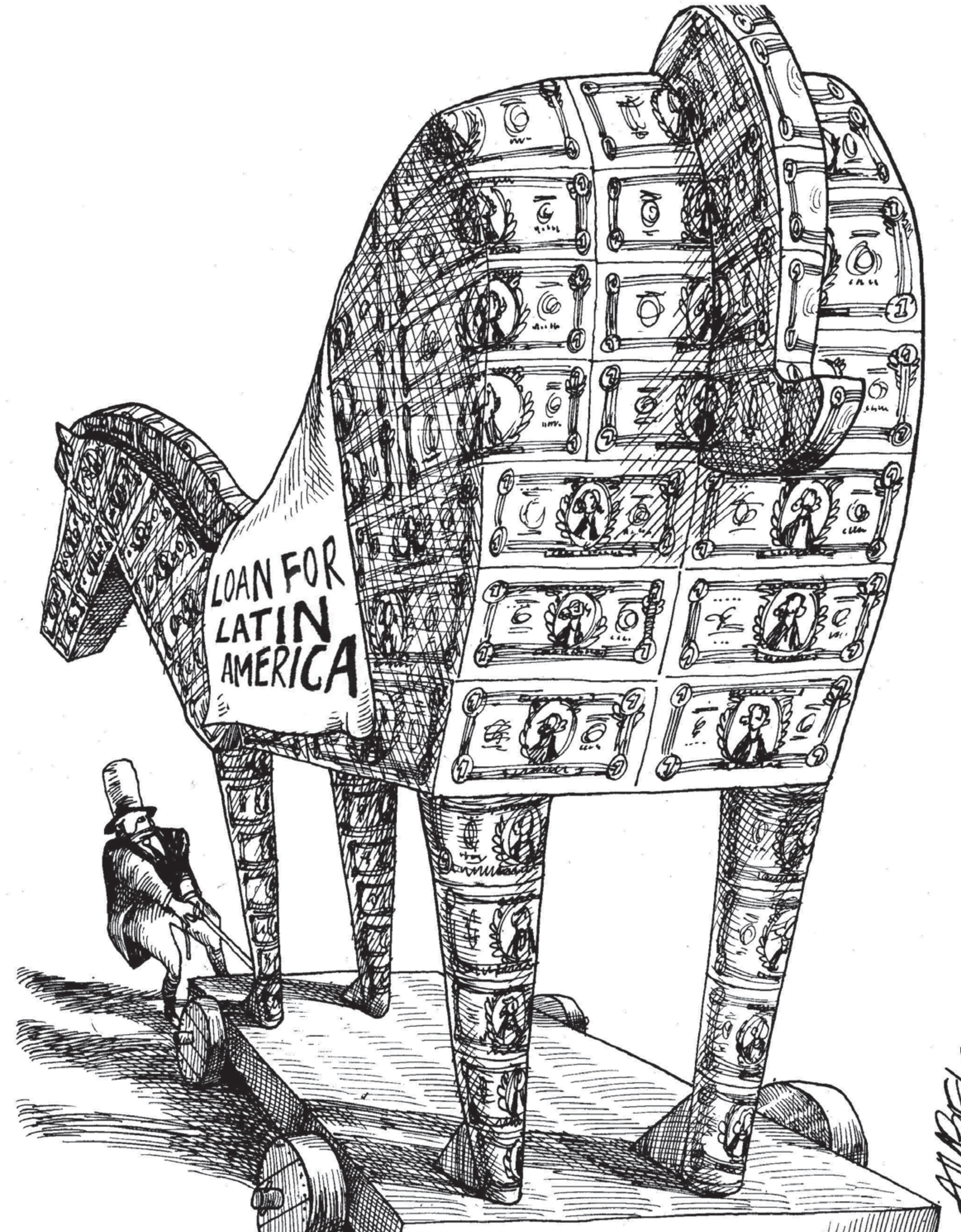
However, the IMF has never recognized the joint responsibility of creditors in the creation and exacerbation of these imbalances. It has failed to consider that credits granted to governments without properly evaluating repayment risks oftentimes accentuate imbalances. On the other hand, when it places the entire cost of adjustment on the country's efforts, its successful implementation is compromised, leading in many cases to a vicious cycle of lack of compliance on agreed targets, a worsening of the situation, and renegotiation subject to harsher terms. This situation has led the IMF to be considered (in this case, with a reasonable degree of fairness) as a collection agent for external creditors, banks, and private financial institutions.

The IMF has also had problems in pursuing its second objective, which it performs by issuing of an annual report on the economic situation and its views on the outlook for each member country. The assessment is conducted by a specialized technical team, and the report is then approved by the Executive Board.

Unfortunately –especially for developed countries– these reports have not always correctly captured the economic and financial situation of member countries, sometimes underestimating imbalances or downplaying risks. The magnitude of this fault was laid bare by the eruption of the financial crisis in 2008, which seemed to take the institution by surprise.

The IMF bases its work on technical criteria, although situated within a clear political framework.

*Founding partner of the Macroconsult group of enterprises. Has been Manager of Economic Studies at the Central Reserve Bank of Peru, Alternate Executive Director at the IMF, and President of the Andean Reserve Fund (now Latin American Reserve Fund).



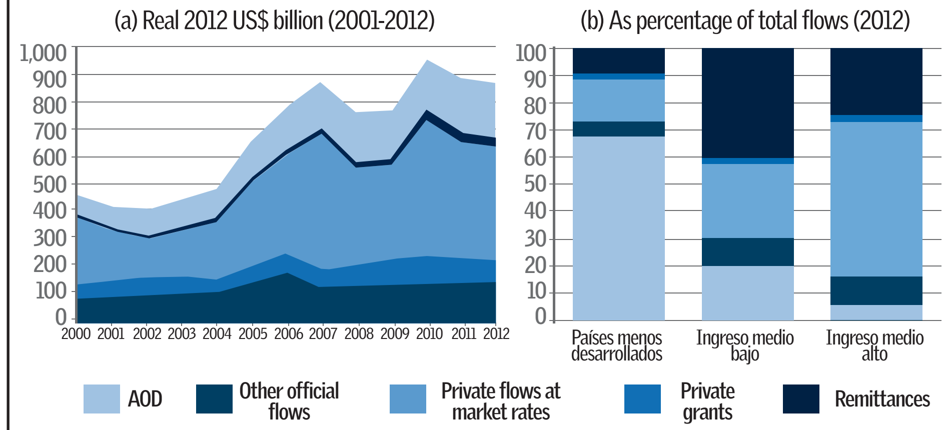
The decisions are made by its directors on the basis of the voting power of the country or group of countries represented by each director, as determined by the respective capital quotas. The group of developed countries has always maintained control of the institution, aligning the IMF's functioning with their specific interests. This is the fundamental reason behind the problems that the institution has encountered in adequately carrying out its mission.

However, the functions fulfilled by the IMF are critical for the operation of the global financial system. Properly performed, they would increase its efficiency, stability and fairness. In order to overcome the problems hampering its advance, the IMF needs to undergo major reforms, whose cornerstone should be ensuring the independence of the technical activities it performs from the political power that governs the institution.

To date, the developed countries have refused to loosen their firm grip on the control they exercise and it may seem naïve to think that this situation could change. However, the discontent existing in many countries, the shift of part of the economic power to Asia, and China's aspirations of world leadership may have altered the general scenario enough to make change possible.

One risk that cannot be ignored is the creation of a parallel institution, as proposed by the Chinese authorities. They have already done something similar (with active opposition from the United States) with the Asian Infrastructure Investment Bank, which engages in activities similar to those of the World Bank. The governments of the developed countries are at a crossroads: they must either improve the stability and equality of the international financial system —for which it is necessary to reform the IMF— or face the risk of dealing with events that will not be able to control. ■

EVOLUTION AND RELATIVE WEIGHT OF DIFFERENT FINANCIAL SOURCES



Fuente: OECD (2014). Development Co-operation Report 2014: Mobilizing Resources for Sustainable Development, París: OECD

BETWEEN OFFICIAL AID AND PRIVATE FINANCING

The Role of Multilateral Development Bank

International aid is not enough.

By
JOSÉ ANTONIO ALONSO*

ALTHOUGH estimates do exist, it is difficult to determine with any accuracy the means required to make the Sustainable Development Goals a reality. Given the ambitious makeup of the Agenda for 2030, it is clear that it will require the international community to provide more (and more effective) means for fostering countries' transition toward inclusive and sustainable development models, while at the same time improving the provision of international public goods . It is estimated that it will be necessary to mobilize somewhere between 1 and 1.5 trillion additional dollars per year just to meet the infrastructure needs called for by this change, and this is only one of the needs proposed by the agenda.

In order to finance such a process of change, international aid is not enough, even assuming the most expansive scenario —and a highly unlikely one, at that— for aid. As important as their function is, particularly in some of the poorest countries, the resources mobilized by aid are a far cry from what is now demanded. It would be unwise to trust, however, that private resourc- ➔

* Professor of applied economics, Universidad Complutense. member of the UN Committee on Development Policy, of the Spanish Cooperation Council, and advisor to the Gates Foundation. Has been director of the Complutense Institute for International Studies.

es, by themselves, can take on a leading role in that process of change, at least without a radical modification to the incentives based on which private agents operate. Although bids into private funds are necessary, it seems reasonable to exercise a certain amount of prudence with regard to their potential contribution. This is especially true if we consider the difficulty in entrusting some of the agenda's objectives (such as education, health, poverty, inequality, or the fight against hunger) to private financing.

As such, given the limited expansive capacity of aid funds and

Just infraestructure will need additional 1 to 1.5 trillion additional dollars per year.

the doubtful involvement—at least in some areas—of private resources, there is no other choice but to turn our gaze to that intermediate space situated between these two poles: that is to say, official financing not necessarily of a concessional nature. It is in this space that both bilateral development finance institutions (DFIs) and multilateral development banks (MDBs) operate. The function of these institutions must take on increasing relevance, especially in view of three specific, interrelated factors.

Firstly, the fact that the new agenda extends to fields where this type of financing is especially relevant, such as infrastructure investment, support for urbanization processes, the provision of water and sanitation, the promotion of growth, industrialization, and employment, changes in energy patterns, or support for innovation and technological change. Secondly, because the process for countries' progressive graduation to middle-income status can be expected to continue in the coming years; and it is clear that, as countries progress, the weight of aid diminishes and this type of non-concessional public financing takes on greater relevance. Lastly, the new agenda not only demands funds: it also requires a notable effort in research and innovation

"MDBs need to adapt their financial instruments to the needs of an increasingly heterogeneous world, in a context of low interest rates."

to solve problems whose answers remain as yet undiscovered, a scenario in which development banks are also expected to take part.

The reality of the recent past, however, seems to contradict everything that has just been said. The weight that multilateral development banks have had in international financing has declined over the last two decades. With the exception of the two years immediately before and after the crisis of 2007, the provision of net credits has followed a generally negative trend. This suggests that countries find it difficult to obtain (or outright reject) this type of financing, instead preferring to resort to that provided by the market, whether in the form of private credit or the bond market. This situation is most likely the result of not only how costly it is to gain access to financing from these institutions (in terms of negotiating processes or the conditions imposed), but also the limited financing that these institutions receive from donors.

Both of these aspects must be corrected. Development banks need to adapt their supply of financial instruments and procedures to the needs of an increasingly heterogeneous world, in a context of low interest rates and a more competitive financing market; while on the other hand, developed countries (and developing countries with higher capacities) must work to better finance these types of institutions, so that they can fulfill their function in channeling resources for developing countries. If both changes are to be achieved, it is the multilateral institutions that need to take the initiative and provide proof of their willingness to adapt to the new international scenario.

Unfortunately, this is not the first time that these kinds of changes have been demanded. Therefore, there are reasons for the skepticism. Nevertheless, the driving force for this change can come, in this case, from the more active climate of competition in the sector ushered in by new promising institutions (such as the Asian Infrastructure Investment Bank) and the dynamism of certain veterans (such as the Development Bank of Latin America (CAF). It is this factor of competition and emulation that can make things different this time around. ■

A Vision for the World Bank

The WB should aspire to develop middle class societies.

By
NANCY BIRDSALL*

First, the mission of the Bank should be reframed as supporting its member governments' pursuit of growth that is shared and sustainable, reflecting and reinforcing the Sustainable Development Goals. That framing would not exclude the current emphasis on reducing poverty, but would embrace it as an outcome of building stable, prosperous, "middle class" societies in which citizens are able and willing to finance with their taxes capable and responsive states that honor agreed global standards and rules.

Such a reframed mission would reflect a return to the founders' original vision —of a World Bank as a "global credit cooperative" generating benefits for all members through collective action. The founders' credit cooperative was built on a simple and brilliant idea: to borrow against the secure capital of creditor members (at the time primarily the United States), and lend to members where investment capital was scarce and returns would be high.

That simple idea took advantage of another benefit: the positive externality associated with borrowing rates as low or lower (given partly uncorrelated risk of creditors) than the credit risk of any single creditor. Creditors would benefit from a more stable global system, and borrowers from more rapid growth and poverty reduction.

A mission emphasizing shared and sustainable growth taps the comparative advantage of the World Bank relative to the dozens of bilateral aid agencies and hundreds of non-governmental organizations that work in developing countries. That comparative advantage lies in the Bank's breadth and depth of knowledge and experience across sectors (infrastructure, pension systems, banking and financial regulation, agriculture, education, health, and so on); on the country expertise of its staff, including on the sometimes difficult local politics that inhibit the reforms critical to ensure return on investment; and on its ability to deploy a variety of financing and risk-sharing instruments in support of both private and public investment.

Second, an additional mission for the World Bank in the 21st century should be the provision of development relevant global public goods (DR-GPGs). Today, the biggest risks to stable and prosperous societies throughout the world are globally driven and need to be addressed collectively. Witness the impact of unabated climate change, the rapid spread of pandemics, the worldwide growing resistance to antibiotics, and the lack of a new generation of drought and pest-resistance crops for climate challenged regions, none of which can be successfully addressed by an individual country.

The Bank should become a prime mover in fostering investments to promote environmental sustainability; supporting research in agriculture, health and clean energy; and in collecting and analyzing economic and social data. Given their high collective, but limited individual country-based returns, development relevant global public goods represent an ideal focus area for the Bank as a global cooperative. It need not provide all of these, but it can help by setting priorities, raising and channeling funds, and by assessing the impact of investments in these activities.

The Bank has relied for seven decades on one key instrument: the country-specific loan. Now it is time to broaden its toolkit; its members should give it a clear mandate combined with new financial and technical assistance instruments geared to the provision of development relevant global public goods.

Finally, during the last half century the US has been a reasonably good steward of international stability —a kind of benign bully operating in the collective interest. It is still an economic and military superpower, but other countries are catching up fast. Resistance to the creation of the Asian Infrastructure Investment Bank is the most recent example of its fading stewardship of the world's key international financial institutions. The US need only recognize that, though still a powerful actor on the global economy, it must now lead more by influence and persuasion, and less by the rules and customs set 70 years ago when it was, for all practical purposes, the sole creditor backing the creation of new international financial institutions.. ■

The head quaters of the World Bank in Washington DC.

Russia's Putin, India's Singh, Brazil's Rouseff, China's Jintao and South Africa's Zuma signed the agreement to créate the BRICS bank.

* Funding President of the Center for Global Development. Has been executive vice president of the Inter-American Development Bank, and previously worked fourteen years in research, policy, and management positions at the World Bank.

The Task at Hand

Human Rights and the World Bank.

Roberto Dañino has been Senior Vice-President and Legal Counsel at the World Bank.

By **ROBERTO DAÑINO***

The recent report by the United Nations Special Rapporteur on Human Rights, the prestigious legal scholar Philip Alston[1], concludes that the World Bank's (WB) position on human rights is "…incoherent, counterproductive, and unsustainable…," adding that the greatest obstacle in this respect is "…the anachronistic and inconsistent…" interpretation of the Bank's "political prohibition."

Effectively, Article IV (10) of the WB's Articles of Agreement establishes that the Bank and its representatives shall not interfere in the political affairs of the member countries, and that only economic considerations shall be taken into account when making decisions. This so-called "political prohibition," however, has been reinterpreted over the course of the last twenty years. The WB has gradually tackled issues that it once avoided based on this "political prohibition," such as governance, the environment, corruption, the judicial system, asset laundering, financing of terrorism, gender equality, the rights of indigenous peoples, among others.

Since its creation over seventy years ago now, the Bank's mission has evolved from the reconstruction of Europe during the postwar years to financing infrastructure in emerging countries. Later on, in addition to financing, the Bank transferred knowledge in a wide range of sectors, and promoted human, social, and institutional development. Today, the Bank's mission is to eradicate poverty through economic growth and social fairness. All of this goes to show that the Bank's statutes have adapted to the changes in the global context.

To date, the gaping hole in this dynamic interpretation of the WB's statutes, however, is human rights. The "political prohibition" continues to be employed as the main argument against the WB's adoption of a policy on human rights. In 2006, when I left my position as the Bank's General Counsel, I had the satisfaction of drafting a legal opinion that opened the doors for the WB to finally do so. The argument was straightforward and consistent with the logic that had previously allowed for the inclusion of other once-prohibited matters.

The institution's President at that time, James Wolfensohn, had articulated the Bank's mission as the "dream of a world without poverty." In various documents, the Bank had also explicitly stated that poverty could only be alleviated through economic growth and social fairness. Poverty alleviation is a multidimensional concept, and, as noted by Amartya Sen, development must be understood in terms of freedom, prosperity, opportunities, and social equality. And there is no doubt that human rights are the very essence of social fairness and equality. In other words, human rights are an intrinsic component of the World Bank's mission.

While the Bank's Articles of Agreement establish economic criteria as the guiding principles for decision-making, this does not exclude the consideration of social and political factors, provided these have an economic impact. A country's "investment climate" is not governed solely by macroeconomic indicators, but also by its governance, political stability, social peace, and its respect for the social and political rights of its citizens.

The Bank's other statutory limitation is that of not interfering in the political matters of its member countries. The Bank is inarguably inhibited from playing a role in a country's partisan politics. However, the concept of sovereignty, too, has evolved a great deal since the Bank was created. Today, the concept of absolute sovereignty no longer exists, as countries themselves have gradually ceded parts of their sovereignty in the pursuit of universal values. There are numerous examples of treaties on all sorts of matters, including election transparency, corruption, asset laundering, and the environment, among many others, and a great variety of supranational courts of justice. The Universal Declaration of Human Rights is today a binding obligation to be complied with, in its entirety, by all member states. In short, many concepts that might have been considered political interference in the past are not viewed as such today. On the contrary, their importance is so great that the states themselves have globalized the oversight of their compliance.

Unfortunately, over the last decade, the opening that we created at the Bank to allow for the formulation of a human rights policy has not only gone unused, but attempts have been made to close it. It has been argued that compliance with human rights standards is optional, not binding, or that the opinions of the Bank's General Counsel must be ratified by the Board of Directors. False. Human rights are a binding commitment and the Bank's legal opinions require no ratification by the Board of Directors. What does require the Board's approval are the Bank's policies.

To date, as noted by Professor Alston, the World Bank's Board of Directors has been incapable of drafting a human rights policy. Hopefully this situation will be reversed in the near future. ■

*. Practicing lawyer and member of enterprise boards. Has been Senior Vice-President and Legal Counsel of the World Bank, Prime Minister of Peru, and ambassador of Peru to the United Sates.
See: Roberto Dañino, "The Legal Aspects of the World Bank's Work on Human Rights: Some Preliminary Thoughts," in Human Rights and Development: Towards Mutual Reinforcement, Philip Alston and Mary Robinson, eds. (Oxford University Press, 2005).

1. "Extreme Poverty and Human Rights," Report by Philip Alston, Special Rapporteur, United Nations General Assembly. Item 73 (b) of the provisional agenda, A/70/274 September 15, 2015.