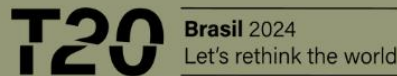
T20 Policy Brief



Task Force 03

REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

Capital Increases at MDBs Should Be Targeted Towards Africa

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Abstract

The International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) had a Capital Increase Package (CIP) approved by the World Bank's Board of Governors in 2018. The agreement featured a US$7.5 billion paid-in capital increase for the IBRD and a US$5.5 billion paid-in capital increase for the IFC. Further, the package included a US$52.6 billion increase in callable capital for the IBRD, coupled with an extension of the subscription period for the general and selective capital increase until October 2025.

This paper critically examines the outcomes of this capital increase, particularly focused on African countries, drawing attention to four reasons that raise skepticism about its effectiveness. Firstly, among the 54 African countries in the World Bank, only 14 can borrow from the IBRD, and 34 can only access resources from the International Development Association (IDA). Secondly, while IDA offers concessional rates, IBRD

lends at market rates, presenting a second-best outcome for eligible countries, and the financing model inadvertently penalizes growth.

Moreover, transfers from the IBRD to the IDA have witnessed a steady decline over the past decade. The last capital increase for the IBRD in 2018 coincided with a reduction in transfers to the IDA, impacting its ability to support African nations, especially during periods of fiscal contraction. Lastly, the capital increase did not result in a significant upsurge in lending to African countries, as their share of IBRD's total assets remained meager over the last five years.

Recognizing the above deficiencies, our paper urges immediate and long-term actions. The African Union, through the briefs recommendations, should call upon the G20 to endorse a proportional increase in funding tied to an IBRD capital increase, an enhancement in African representation in the World Bank, reforms addressing perverse incentives in the IDA-IBRD system, and increased contributions to the IDA. These measures are crucial for ensuring that capital increases lead to meaningful development for African nations and contribute to fostering a more inclusive World Bank.

Diagnosis of the Issue

The United Nations estimates that US$3.3 – US$4.5 trillion is needed each year to achieve the UN Sustainable Development Goals (SDGs) by 2030.[1] For Africa, the financing need is more critical and urgent given the persistent high levels of poverty estimated at nearly 40% as of 2022.[2] The United Nations Economic Commission for Africa (UNECA) estimates that Africa needs to spend approximately US$1.3 trillion each year in order to achieve the SDGs.[3] On the infrastructure front, in 2018 the African Development Bank (AfDB) estimated that to close its infrastructure gap, Africa needs to spend between US$130 – 170 billion annually for 10 years, with the external financing gap estimated between US$68 – US$108 billion.[4] Development Reimagined's estimates

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[1] "Unlocking SDG Financing: Findings from Early Adopters," UNSDGS, 2018. https://unsdg.un.org/resources/unlocking-sdg-financing-findings-early-adopters.

[2] "2020 Africa Sustainable Development Report," United Nations Development Program, February 26, 2022. https://www.undp.org/africa/publications/2020-africa-sustainable-development-report.

[3] "Long-Term Financing for Sustainable Development in Africa. United Nations Economic Commission for Africa," United Nations Economic Commission for Africa, 2020. https://www.uneca.org/chapter/economic-report-africa-2020/long-term-financing-sustainable-development-africa.

[4] "Africa's Infrastructure: Great Potential But Little Impact On Inclusive Growth," African Development Bank, 2018. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African_Economic_Outlook_2018_-_EN_Chapter3.pdf.

for infrastructure spending to meet the SDGs and Agenda 2063 in 13 African countries put the gap at US$108.9 – US$149.9 billion annually through 2030.[5]

Owing to their small economic size, African countries on their own cannot raise sufficient finance to meet the continent's development needs. Therefore, a significant increase in the inflow of external resources—especially highly concessional financing from Multilateral Development Banks (MDBs)—is required to facilitate investment in value addition and to complement the work of the African Development Bank.[6] And whereas MDBs cannot fully meet Africa's financing needs, they can and should do more urgently because failure to do so perpetuates a debt cycle as countries are forced to rely on private lenders. This requires a significant increase in their resources, especially the World Bank as the world's foremost Development Finance Institution.

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[5] "African Priorities for the G20 in 2024," Development Reimagined, March 14, 2024. https://developmentreimagined.com/african-priorities-for-the-G20-in-2024/.

[6] "African Common Position on Africa's External Debt Crisis," MSU Libraries. Organization of African Unity, 1987. http://sanweb.lib.msu.edu/DMC/African%20Journals/pdfs/Journal%20of%20the%20University%20of%20Zimbabwe/vol12n1/juz012001004.pdf.

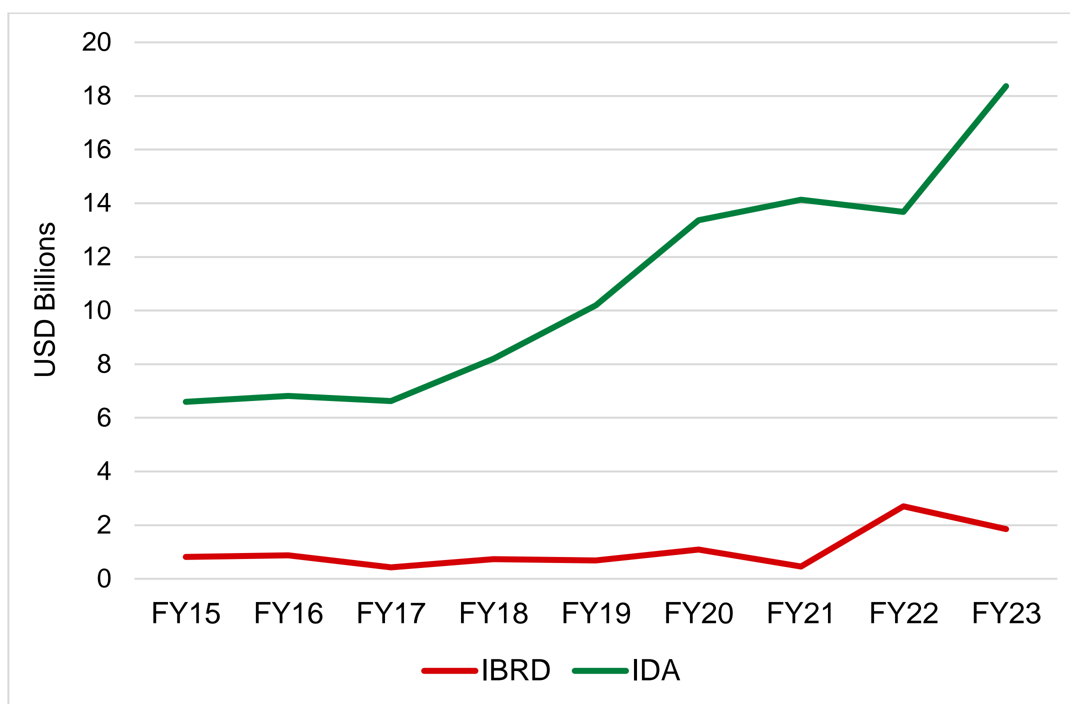

FIGURE 1. World Bank (IBRD and IDA) gross lending to Africa

TABLE 1. IDA Lending Rates[7]

	Maturity	Grace Period	Principal Repayments		Acceleration Clause
Grants	NA	NA	NA	NA	NA
Small economy	40	10	2% for yrs. 11-20	4% for yrs. 21-40	
Regular	38	6	3.125% for yrs. 7-38	Yes	Yes
Blend	30	5	3.3% for yrs. 6-25	6.8% for yrsYes. 26-30	
SML	12	6	2.5% for yrs. 11-50	Yes	Yes
50-Year Credit	50	10	NA	Yes	
Guarantees	NA	NA	NA	NA	NA
Non-concessional Financing	Up to 35 years maximum	Flexible			

[7] "Lending Rates & Fees," World Bank, 2024.

TABLE 2. IBRD Lending Rates[8]

	Maturity Premiums			
Maturity Buckets	Pricing Group A	Pricing Group B	Pricing Group C	Pricing Group D
Up to 8-year average	0	0	0	5
8+ to 10-year average	10	10	10	15
10+ to 12-year average	20	25	30	40
12+ to 15-year average	30	40	50	65
15+ to 18-year average	40	55	70	90
18+ to 20-year average	50	70	90	115

Indeed, the need for a significant resource boost for MDBs is now widely recognized particularly at a time of great fiscal strain.[9] One of the ways to increase the resource

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https://treasury.worldbank.org/en/about/unit/treasury/ida-financial-products/lending-rates-and-fees.

[8] "Changes in IBRD Loan Pricing Effective July 1, 2018," World Bank, March 15, 2019. https://www.worldbank.org/en/news/press-release/2018/07/13/changes-in-ibrd-loan-pricing-effective-july-1-2018.

[9] Summers, Lawrence H. "The Multilateral Development Banks the World Needs: By Lawrence H. Summers & N.K. Singh," Project Syndicate, August 18, 2023. https://www.project-syndicate.org/commentary/world-bank-mdbs-how-to-triple-funding-andmake-more-effective-by-lawrence-h-summers-and-n-k-singh-2023-07.

envelope of MDBs is through a General Capital Increase (GCI). GCI refers to an increase in contributions from all shareholders to enable more lending.[10] Any such capital increase, however, must be accompanied by a corresponding increase in financing for African countries whose needs, as has been shown, are urgent and critical.

The World Bank has had five GCIs—in 1959, 1979, 1988, 2010, and 2018.[11] During the most recent GCI in 2018, the Board of Governors approved a Capital Increase Package (CIP) that included a US$7.5 billion for the International Bank for Reconstruction and Development (IBRD) and US$ 5.5 billion for the International Financial Corporation (IFC), and a US$52.6 billion increase in callable capital for the IBRD.[12]

While these Capital Increases are often promoted as helpful for all low and middle-income countries, the degree to which African countries actually benefit from this increase in capital is highly debatable. This is for four inter-related reasons.

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[10] Moss, Todd, Julia Barmeier, and Sarah Jane Staats. "CGD Brief the Abcs of the General Capital Increase," Center for Global Development, 2011. https://www.cgdev.org/sites/default/files/archive/doc/IFI/IFI_Briefs_GCI-FINAL.pdf.

[11] "The World Bank Group's Capital Increase Package in the Context of the Forward Look: An Independent Validation," World Bank Independent Evaluation Group, 2023. https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ap_capitalincreasepackagevalidation.pdf.

[12] "World Bank Group Shareholders Endorse Transformative Capital Package," World Bank, April 21, 2018. https://www.worldbank.org/en/news/press-release/2018/04/21/world-bank-group-shareholders-endorse-transformative-capital-package#:~:text=WASHINGTON%2C%20April%2021%2C%202018%E2%80%94,ability%20to%20scale%20up%20resources.

First, as shown in Figure 2 below, out of the 54 African countries that are members of the World Bank, 14 countries are eligible to borrow from the IBRD (only), another 34 countries can only borrow from the International Development Association (IDA) but not the IBRD while a further 6 countries are eligible to borrow from both the IDA and IBRD (known as blend countries).[13] This is because IDA-eligible countries have per capita GDP below US$1,315 while IBRD-eligible countries exceed this threshold.[14] However, poverty rates in both IDA-eligible and IBRD-eligible African countries are high—approximately 48% and 30% respectively.[15]

African countries make up the bulk of the demand for IDA resources – accounting for 64%[16] and 71%[17] of IDA's total commitments during its 18th and 19th funding cycles respectively. Yet, the IDA does not have sufficient resources to meet this demand. For

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[13] "Borrowing Countries," International Development Association, 2023. https://ida.worldbank.org/en/about/borrowing-countries.

[14] "IDA Lending Terms," International Development Association, 2024. International Development Association. https://ida.worldbank.org/en/financing/ida-lending-terms.

[15] Author's calculations using World Bank data (2023).

[16] "IDA Financial Assistance in the IDA18 Period: Commitments and Disbursements Report," International Development Association, 2021. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/211581615233535103/ida-financial-assistance-in-the-ida18-period-commitments-and-disbursements-report.

[17] "IDA19 Replenishment," International Development Association, 2023. https://ida.worldbank.org/en/replenishments/ida19-replenishment.

instance, Development Reimagined estimated that African countries allocated a total of US$63 billion in their budgets to COVID19 in FY21.[18] Yet, the IDA's commitments for all IDA-eligible countries in FY21 totaled US$36 billion, almost half of what Africa alone needed for its recovery.[19]

FIGURE 2. IDA/IBRD Access for African Countries

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[18] "Infographic: African Countries Had to Spend Billions to Manage COVID-19 in 2021." Development Reimagined, January 28, 2024. https://developmentreimagined.com/african-countries-spending/.

[19] "IDA Country Allocations for FY21," World Bank, 2021. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/571891638970599811/ida-country-allocations-for-fy21.

Second, while IDA lends at highly concessional rates, the IBRD lends at market rates.[20] Thus, for those countries that were eligible to benefit from the IBRD capital increase, in some ways they were accepting a second-best outcome. Their first best outcome would have been to continue to access cheap IDA finance, even as they grow. Indeed, the World Bank's financing model imposes a penalty on growth: concessional lending significantly decreases as a country's economy grows, even from a very low starting point. This is not to mention that IDA resources are not sufficient to meet the significant financing needs of low-income countries it serves, let alone African countries.

Third, while a capital increase to the IBRD is determined through an overall calculation and quota arrangement, the IDA depends on voluntary contributions from donor countries. Thus, transfers from the IBRD actually contribute to the IDA's capital base. However, the IBRD's transfers to the IDA have decreased significantly over the past decade (Figure 3).

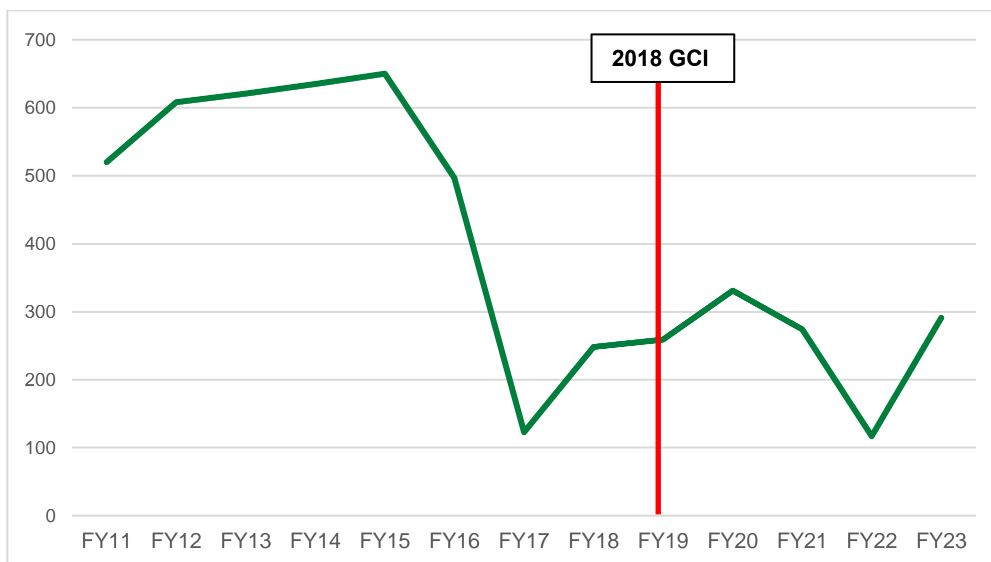

FIGURE 3. IBRD Transfers to IDA (2011-2023, US$ millions)

[20] "IDA Financing," International Development Association, 2024. https://ida.worldbank.org/en/financing.

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Between 2015-2023, transfers declined by about 55% from US$650 million to less than US$300 million. In 2017, the Bank's Board of Governor's adopted a formula-based approach to determining IBRD's annual transfers to the IDA; it linked the transfers to the IBRD's financial performance and ensures that majority of the Bank's Allocable Income is transferred to the Bank's reserves ostensibly to generate more Equity for the Bank (Figure 4).[21] Thus, even after the last capital increase in 2018, IBRD transfers to the IDA have barely increased (Figure 3). From 2018 to 2019, transfers increased by a meagre 4.4%, rising from US$248 million to US$259 million. In the fiscally strenuous years between 2018-2022, IBRD transfers to the IDA actually decreased by over 50% from US$248 million to US$117 million. This perennially low level of IBRD transfers to the IDA limits the benefit of capital increases for IDA-eligible countries, majority of which are African countries.

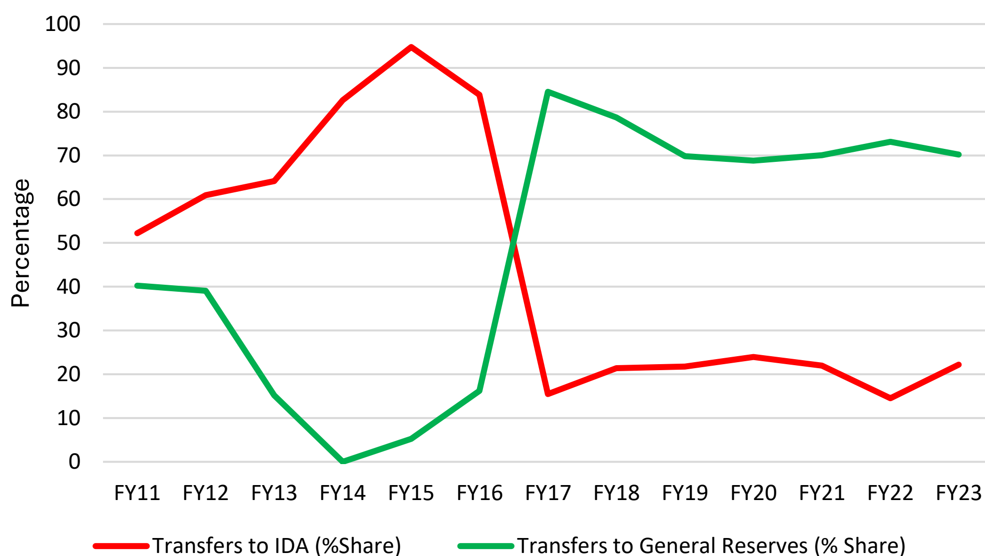


FIGURE 4. Effect of IBRD's New Formula-based Approach on IDA Transfers

[21] "IBRD Financial Statements June 2017," World Bank, 2017. http://pubdocs.worldbank.org/en/395711586359521179/IBRD-Financial-Statements-June-2017.pdf.

In other words, the new approach penalized IDA-eligible countries in order to increase the Bank's Equity. Yet, increasing transfers to the General Reserves has not been correlated with an increase in the Bank's Equity to Loans ratio (Figure 5). In fact, this ratio has fallen consistently as transfers to General Reserves have gone up. Thus, the new approach has not been effective at the expense of IDA-eligible countries that sorely need concessional financing.

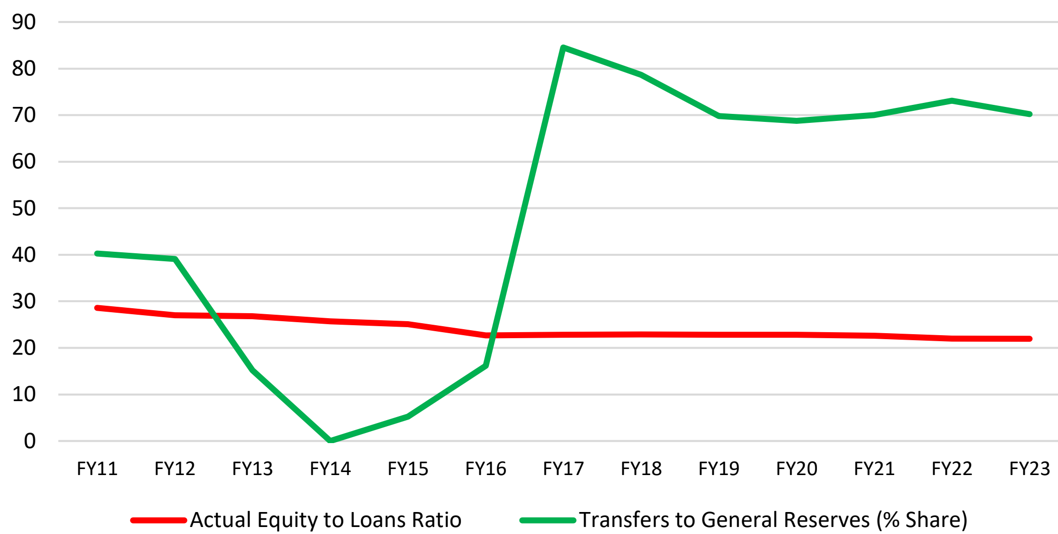


FIGURE 5. Effect of Higher Allocation to Reserves on Bank's Equity/Loans Ratio

Fourth, as the actual deployment of IBRD's (and IDA's) lending to Africa depends on the demand of African countries, weighing up all of these factors as well as any policy conditions that come with the loans, the share of the World Bank's total assets held by African countries has remained meager over the last five years, despite the capital increase approved in 2018 (see figure 6 & 7 below). Between 2017-2018, IBRD lending to Africa as a proportion of the Bank's total assets increased slightly from 0.2% to 0.3%, a mere 0.1 percentage point change. Between 2018-2019, this figure fell back to 0.2%; it rose to 0.4% in 2020 before falling to 0.1% in 2021. In 2023, it was just 0.6% of the

Bank's total assets, 0.3 percentage points less than in 2022. Meanwhile, the 17 African countries holding and servicing IBRD loans today face higher interest rates and shorter maturity periods relative to their peers serviced by the IDA.[22]

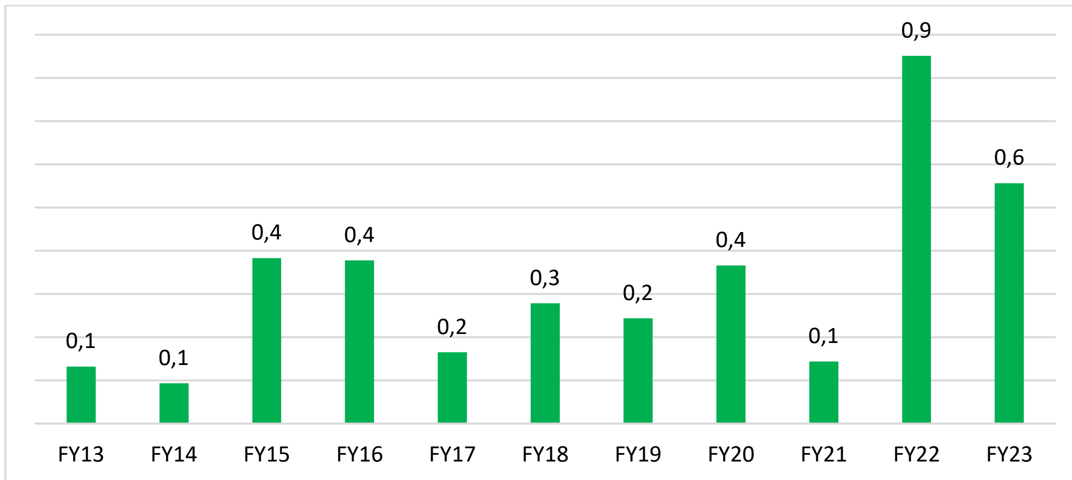


FIGURE 6. IBRD Lending to Africa (% of IBRD's Total Assets)

[22] "IDA Lending Terms," International Development Association, 2023. https://ida.worldbank.org/en/financing/ida-lending-terms.

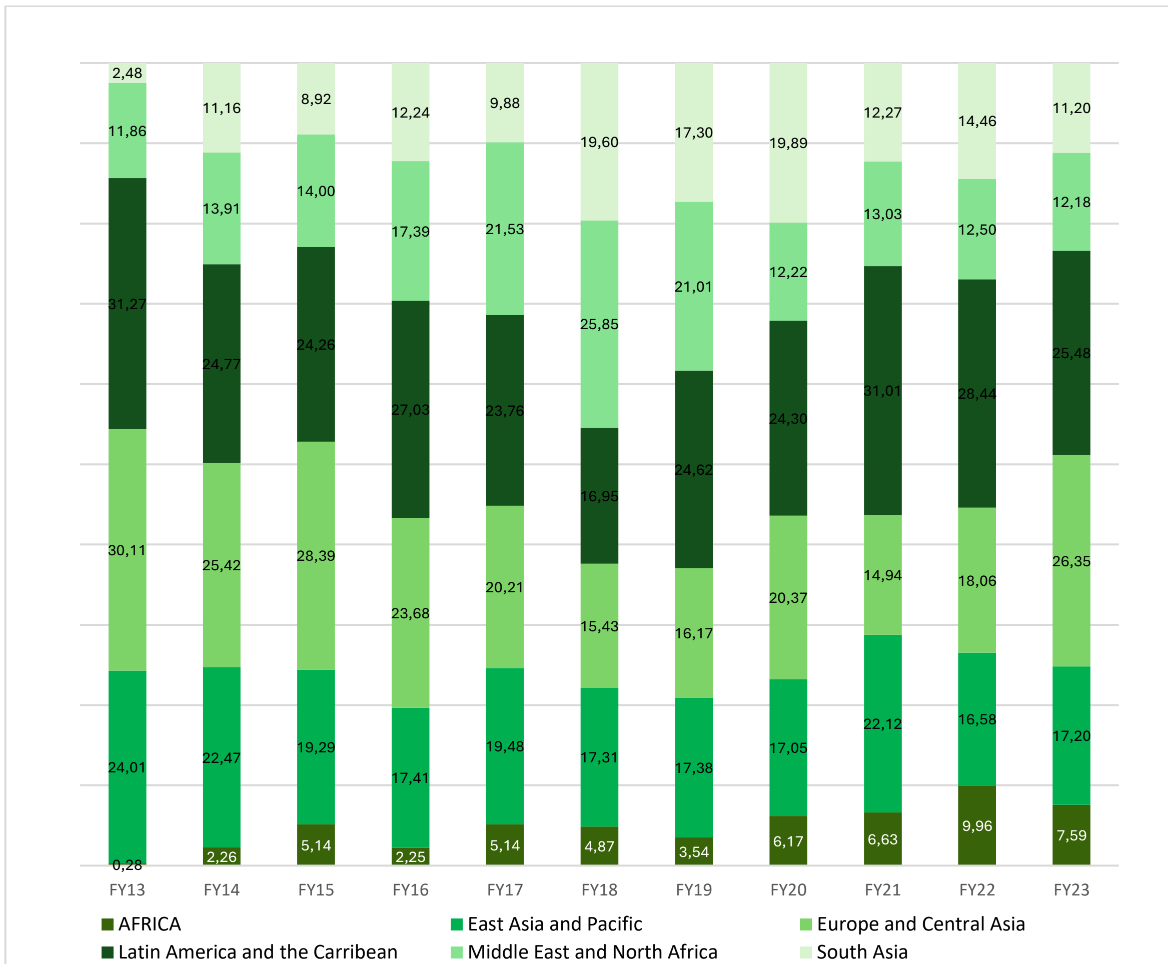


FIGURE 7. IBRD Commitments by Region (% of IBRD's total commitments, 2013-2023)

Due to the above four factors, the last capital increase for the IBRD did not translate into more lending to African countries, and it is unlikely it will do so now.

So how have these disappointing outcomes occurred, despite the best development intentions? The lack of understanding of the African perspective due to the lack of diversity in the World Bank's governance structure and staffing has affected decision-making both in terms of direction as well as operations. Diversity comes with several benefits for the Bank's efficiency and effectiveness including speedy resolutions to challenges and elimination of groupthink.

Within the context of the G20's broader call for reform of MDBs to make them bigger and better, the African Union's (AU) permanent membership in the G20 presents an opportunity for G20 members to finally pay heed to Africa's development financing needs. Ensuring that any capital increases at MDBs is accompanied by increased funding for Africa is critical for accelerating poverty alleviation efforts on the continent as well as supporting Africa to meet the SDGs. Additionally, it is in the self-interest of G20 members to stem the fallout from a crisis of persistent material depravity in Africa which has reverberating effects even for them.

Recommendations and Scenarios

Brazil's G20 Presidency should work towards five key items to better serve its newest member—Africa.

Recommendation 1: Any capital increase for the Bank should be tied to a proportional increase in funding for African countries

In the short-term, G20 should agree to and support a proposal that any capital increase for the Bank should be tied to a proportional increase in funding for African countries to support their development priorities. In practice this would mean tying an IBRD capital increase to a proportional increase in IBRD lending to eligible African countries.

Recommendation 1a: Any Capital Increase for the Bank should be tied to doubling IBRD lending to African countries.

African countries have historically received the least-share of IBRD lending, averaging less than 5% between 2013-2023. This is greatly insufficient, considering the continent's significant financing needs. As such, the G20 countries should support doubling Africa's annual share of IBRD lending from approximately 5% to at least 10%. This can be done by reducing the share going to each of the other 5 regions by one percentage point. This would be a small loss for other regions but a significant win for Africa (Figure 8 below).

USD Billions	Actual IBRD Lending in 2015	IBRD Lending in 2015 if Africa got a 10% Share	Actual IBRD Lending in 2018	IBRD Lending in 2018 if Africa got a 10% Share	Actual IBRD Lending in 2023	IBRD Lending in 2023 if Africa got a 10% Share
AFRICA	1,209	2,3528	1,12	2,3002	2,928	3,8572
East Asia and Pacific	4,539	4,0851	3,981	3,5829	6,636	5,9724
Europe and Central Asia	6,679	6,0111	3,55	3,195	10,162	9,1458
Latin America and the Carribean	5,709	5,1381	3,898	3,5082	9,828	8,8452
Middle East and North Africa	3,294	2,9646	5,945	5,3505	4,697	4,2273
South Asia	2,098	1,8882	4,508	4,0572	4,321	3,8889

FIGURE 8. Retrospective Effect of Fixing Africa's Annual Share of IBRD Lending at 10%

Recommendation 2: Increase IBRD transfers to the IDA to 85% of the Bank's Allocable income.

The Bank should revert to transferring majority of its allocable income to the IDA for the benefit of eligible countries, most of them being African. We propose fixing this transfer at 85% of annual allocable income. This proposal would not endanger Bank's headline risk indicator of Equity to Loans ratio as shown below (Figure 9 overleaf).

Increasing IBRD transfers to the IDA is in the Bank's interests: as more countries grow out of poverty, they become clients of the Bank.

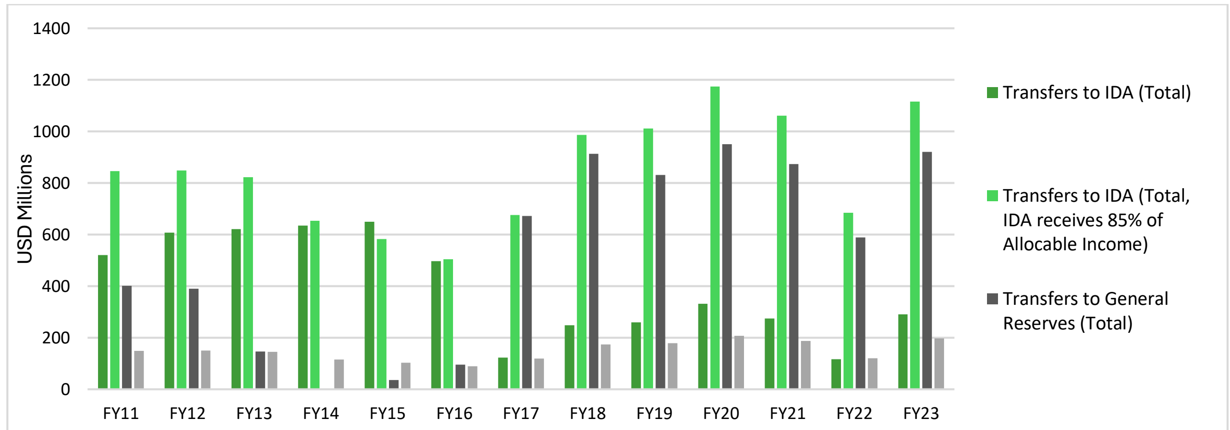


FIGURE 9. Effect of Fixing IBRD's Transfers to IDA at 85% of Allocable Income

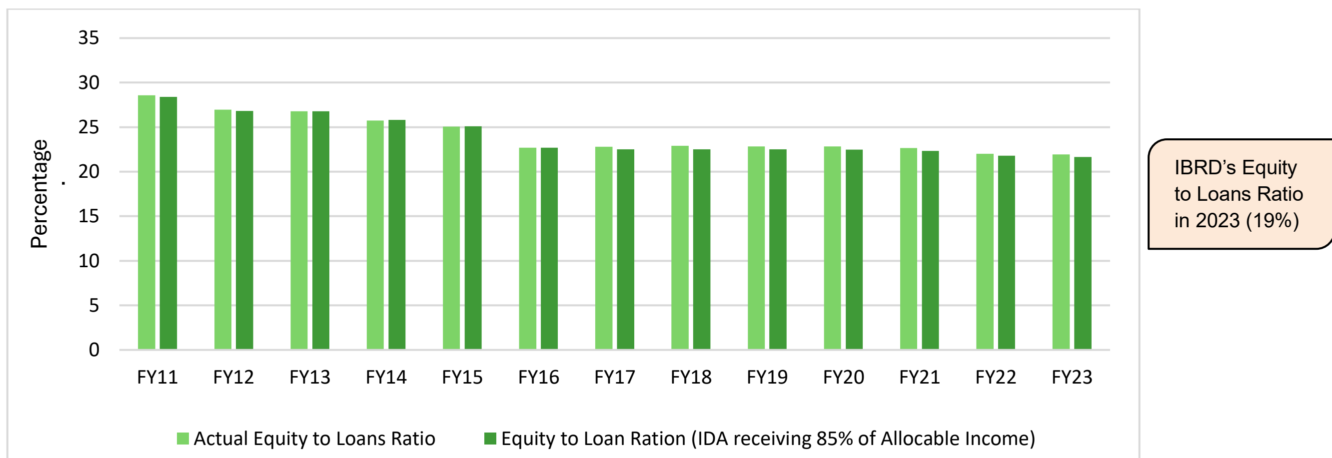


FIGURE 10. Effect on the Bank's Equity to Loans Ratio of Fixing IBRD's Transfers to IDA at 85% of Allocable Income

Recommendation 3: G20 countries should double their contributions to the IDA

In the short term, G20 member states should commit to double their contributions to the IDA to enable it meet the ever-growing demand from its members. In practice, this would require donor countries, particularly G20 members to increase their ODA budgets by approximately 10% by 2030. Concurrently, G20 member countries should support an increase in the IDA's Regional Window allocation for Africa from 75% to 85% given that Africa has the highest demand for IDA regional resources.

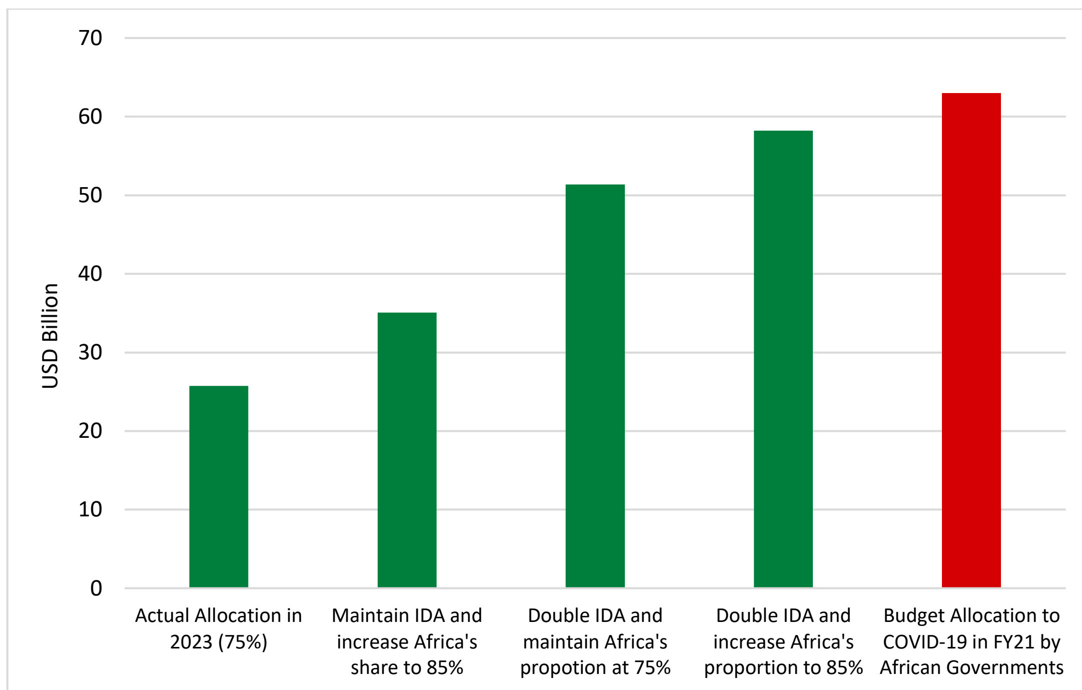
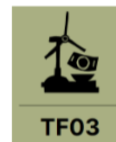


FIGURE 11. Impact of increasing IDA Contributions and Doubling Africa's Share

Recommendation 4: Increase the threshold for IDA-eligibility to include lower middle-income countries

In the medium-to-long-term, reform of the World Bank to tackle some of the perverse incentives and conditions of the IDA-IBRD system – e.g., to eliminate or increase the thresholds for IDA eligibility, etc. In practice, this could mean allowing lower-middle income countries—many of which cannot access affordable financing on capital markets—to continue benefitting from concessional lending from the IDA rather than



penalizing them for achieving economic growth. This would allow more African countries, especially those in the lower middle-income category, to continue accessing concessional loans from the IDA to finance their development priorities.

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