



12th edition of the seminar on financial stability issues

Lessons learned & Road to WBG Capital Increase

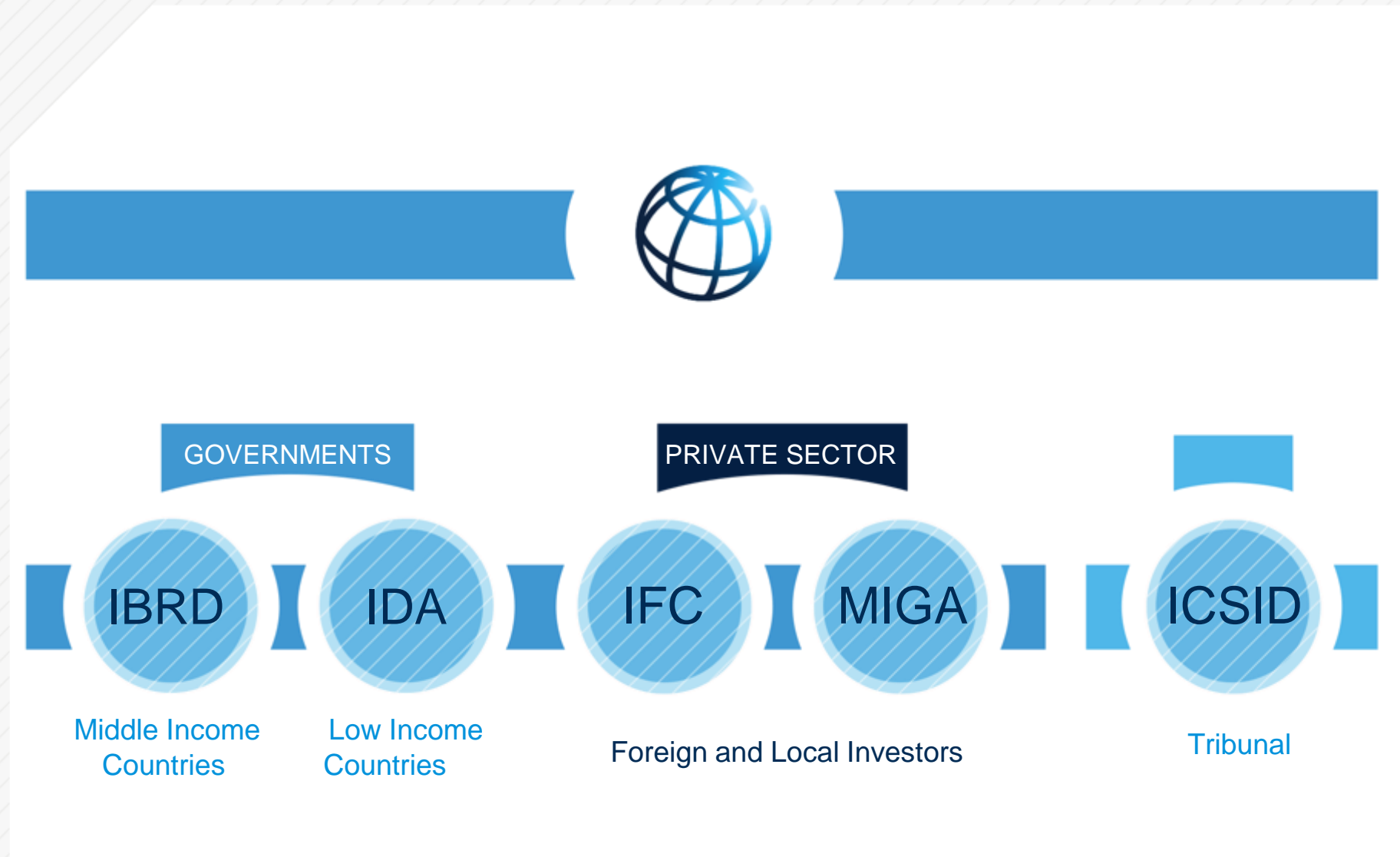
Frank Heemskerk

Executive Director EDS19 - 2013 - 2018

Sinaia, NBR



The World Bank Group



Governments

MIDDLE INCOME

Borrows \$
by selling bonds

IBRD

Cost of borrowing
+ Bank spread
up to 35 years

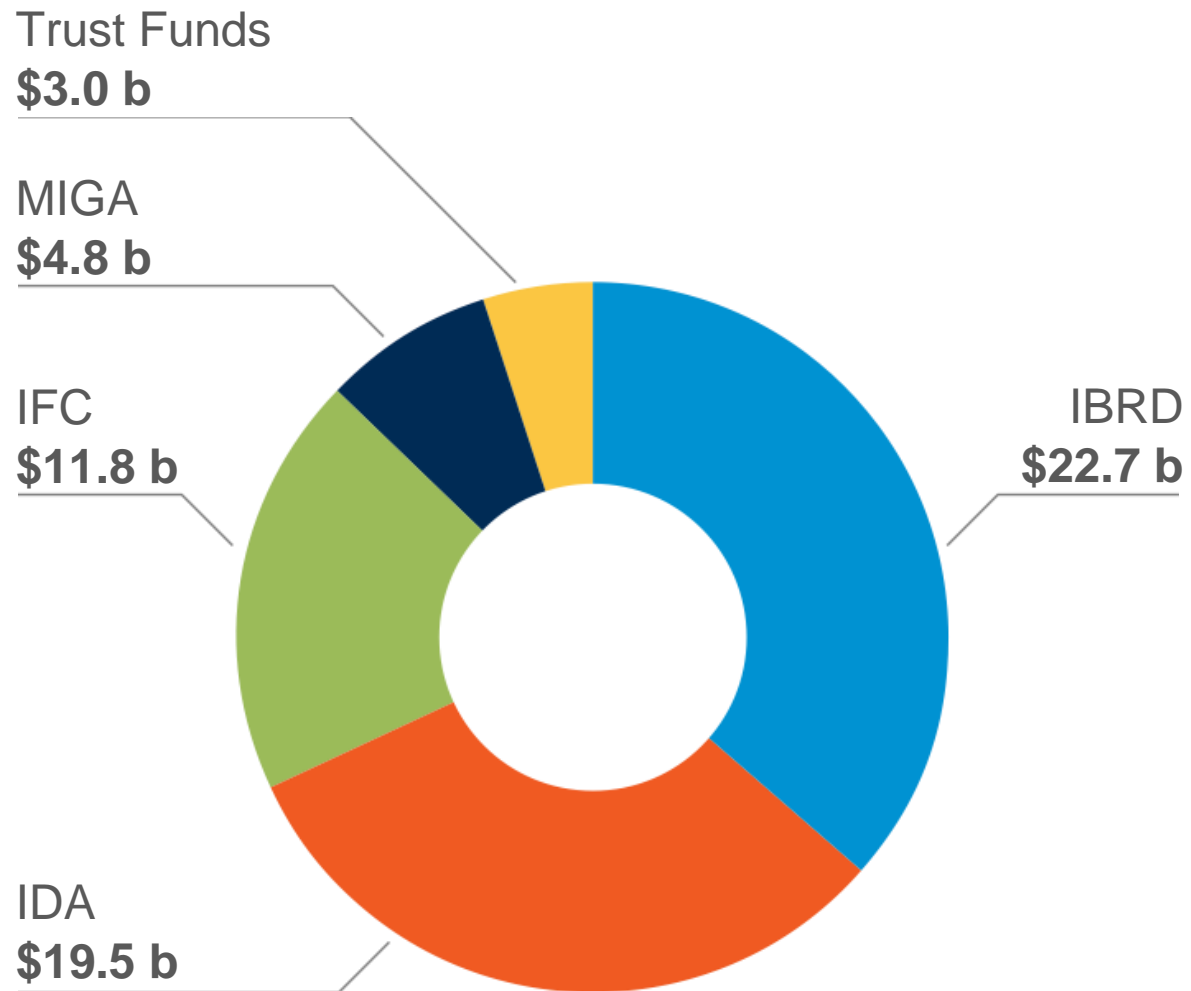
LOW INCOME

Donors, Markets,
IBRD/IFC
and Repayments

IDA

0%
up to 38 years,
6 year grace

2017: US\$ 61.8 Billion



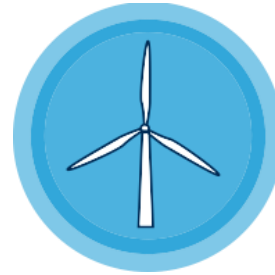
FY17: US\$42.2 Billion IBRD/IDA



Transportation **18%**



Water, Sanitation, and
Waste Management **14%**



Energy and Extractives
14%



Public Administration **12%**



Agriculture, Fishing,
and Forestry **11%**



Industry, Trade, and
Services **8%**



Education **8%**



Social Protection **7%**



Health **5%**

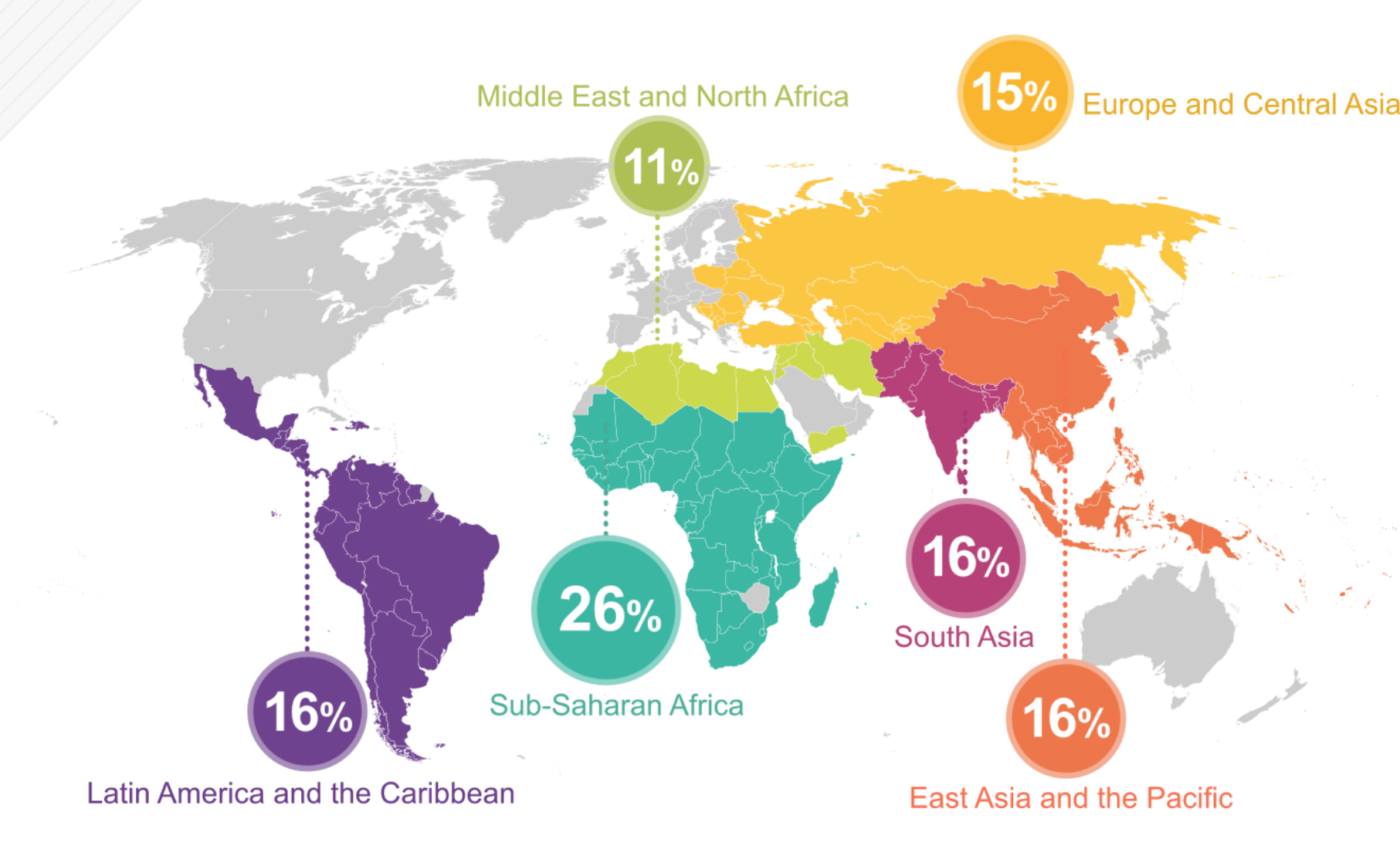


Information and Communications
Technology **2%**

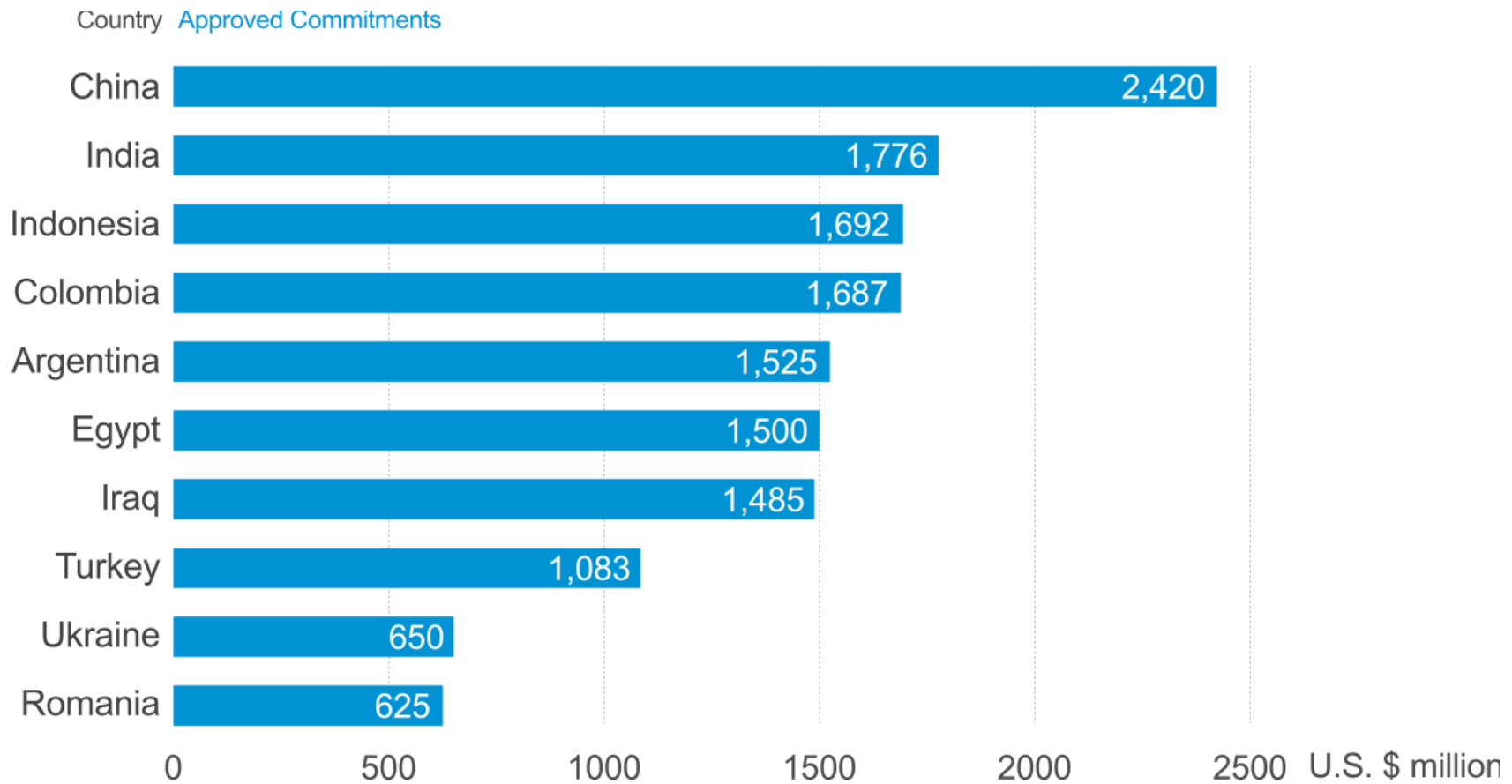


Financial Sector **1%**

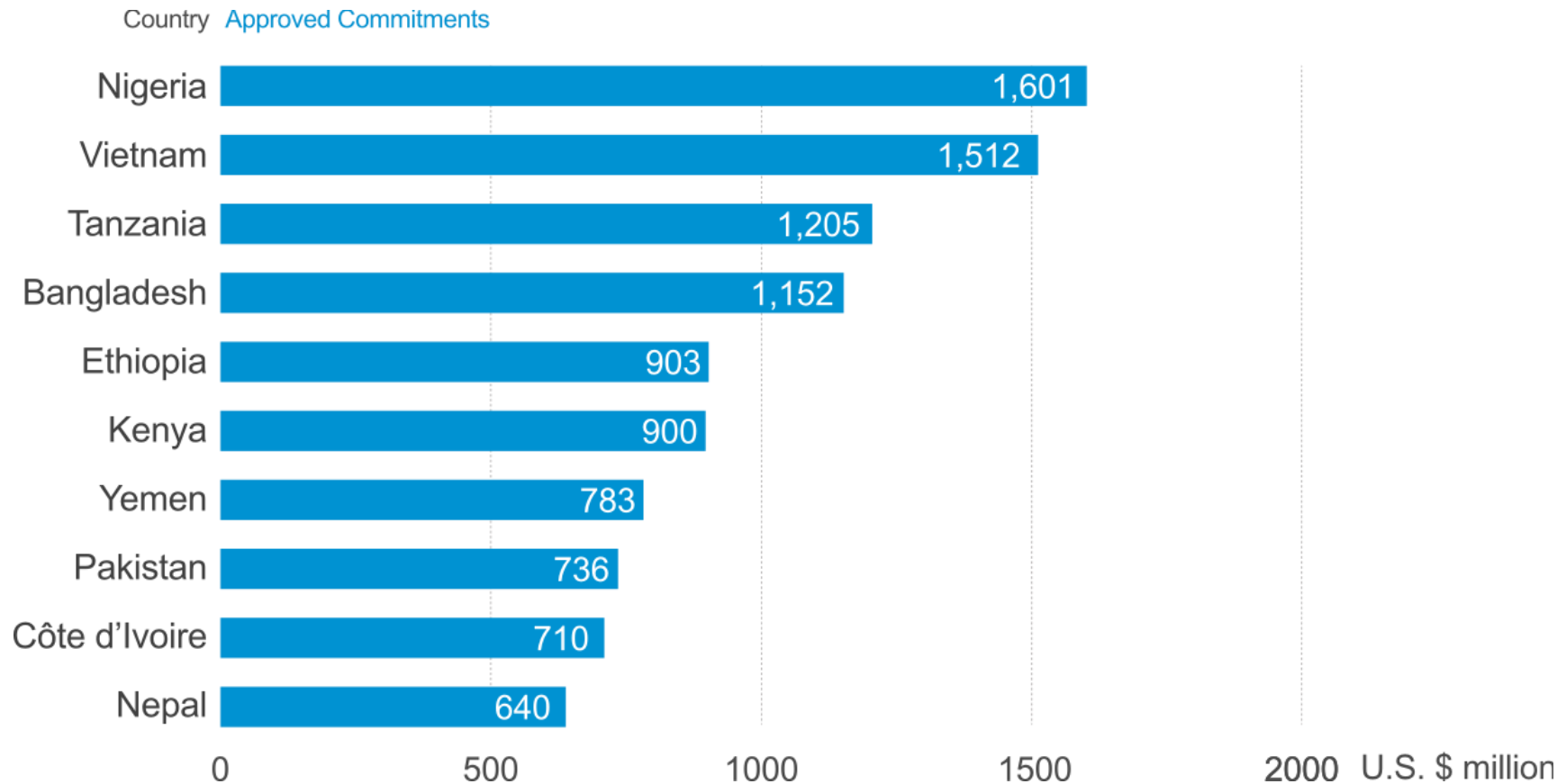
Regions



Middle Income Top Borrowers

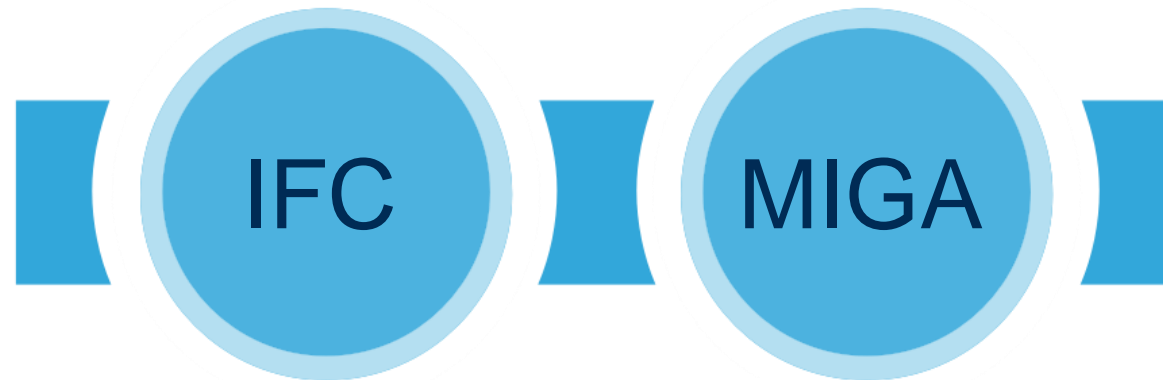


Low Income Top Borrowers



The Private Sector

PRIVATE SECTOR



Foreign and Local Investors

Staff



16,000
staff

127
country offices

170
nationalities

More than a Bank...



Loans

Knowledge

Collective Action

2000s



Key partner in Millennium Development Goals (2000)

Engendering Development, strategy to mainstream gender into WBG policy, analysis, and project implementation (2001)

Disability Advisor appointed by World Bank (2002)

The Low Income Countries Under Stress (LICUS) Trust Fund (2004)

World Bank Group Special Envoy for Climate Change (2010)

Key Partner in Sustainable Development Goals (2015)



CLIMATE CHANGE

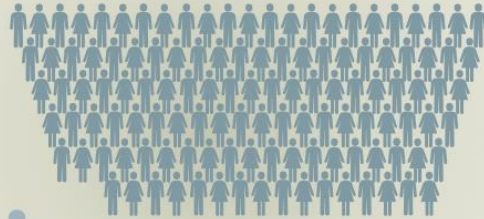
could push
100 million people
into



POVERTY

In **2015** the planet temperature was 0.9°C above the 20th century average—**nearly halfway** to the globally agreed-on **2°C threshold** for severe climate effects.

FORCED DISPLACEMENT



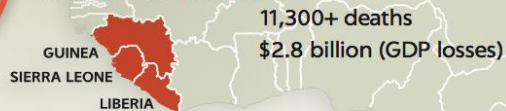
One in **122 people** in the world are forcibly displaced.

PANDEMICS

A **pandemic** is an outbreak that has crossed borders and overwhelmed a health system—a scenario far more likely in a poor country.



The human and economic cost of the recent **Ebola crisis** =



Donor countries committed a total of more than **\$7 billion** for Ebola response and recovery.

Refugees + internally displaced persons + asylum seekers = **>60 million people globally**

2000s

Climate Action Plan (2016)

Global Concessional Financing Facility (2016)

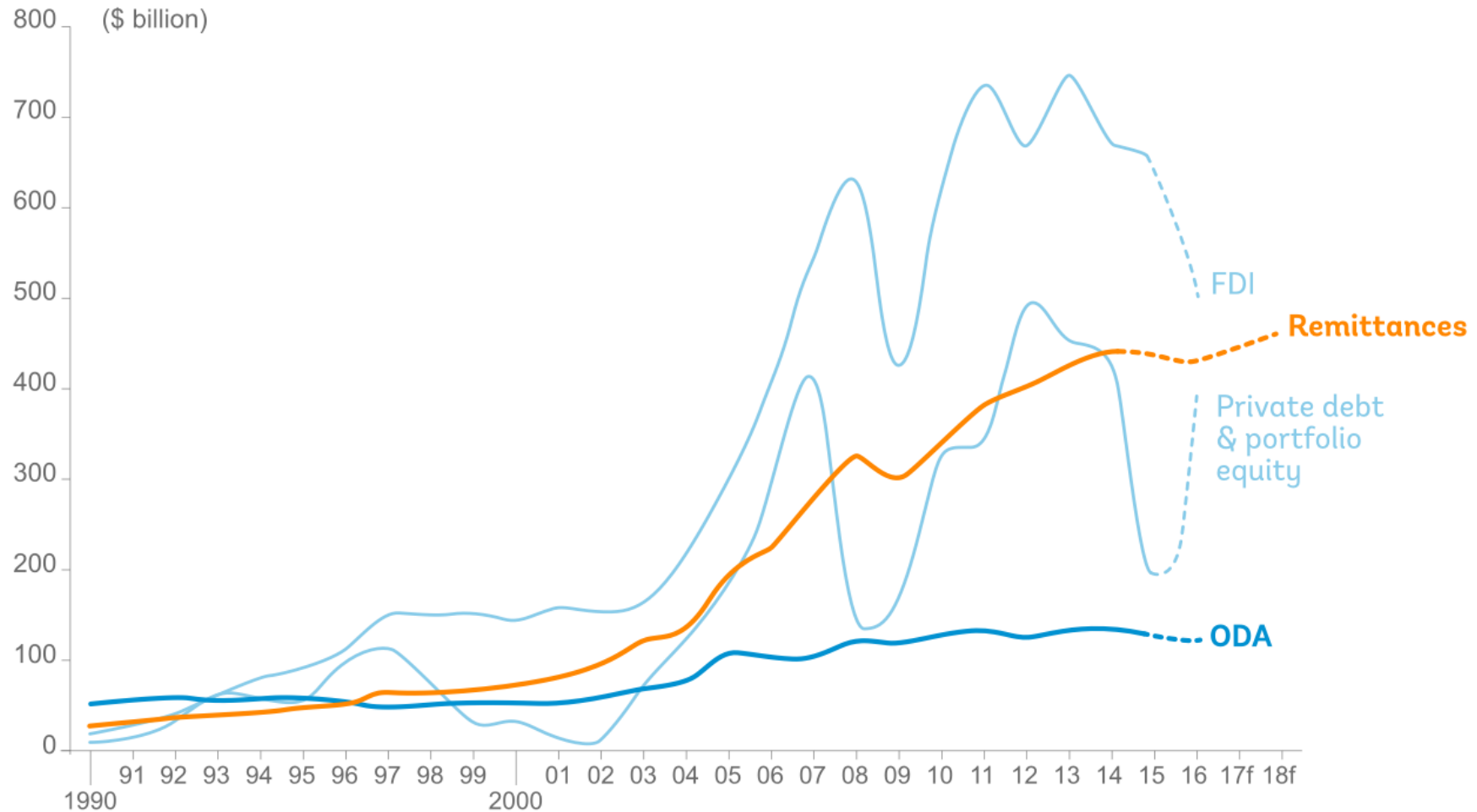
Pandemic Emergency Financing Facility (2017)



100 million people into poverty by 2030
natural disasters - \$520 billion loss in annual consumption
shifts in population settlements over time

CLIMATE

Not enough...



WBG Twin Goals

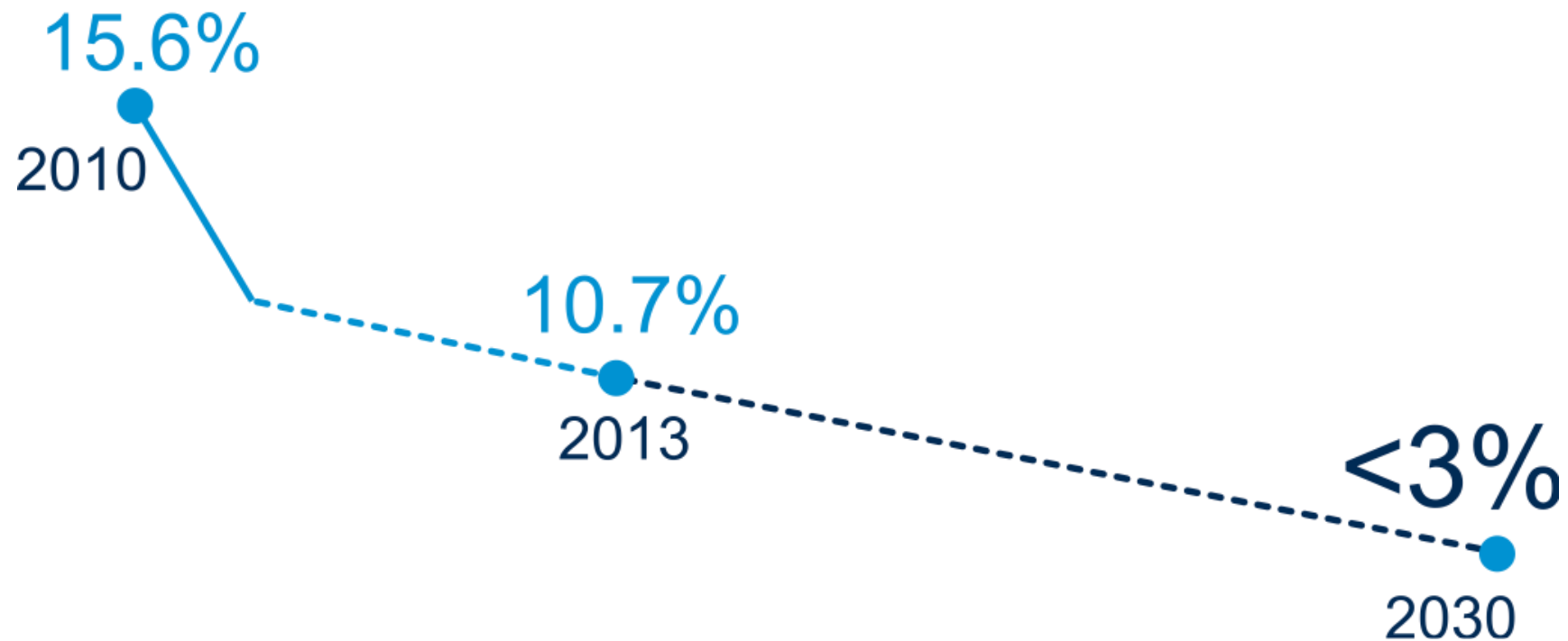


End Extreme Poverty

Boost Shared Prosperity

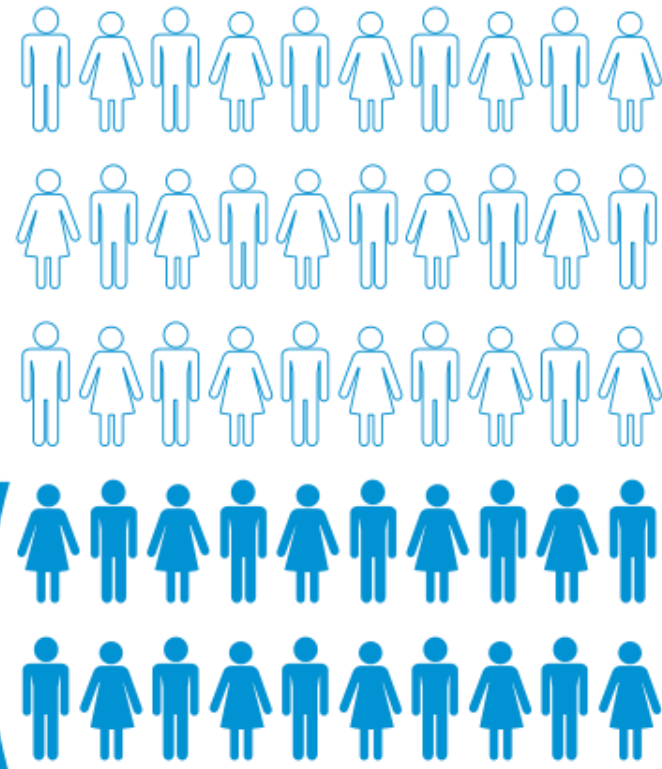
Goal 1: End Extreme Poverty

Down to <3% in 2030



Goal 2: Boost Shared Prosperity

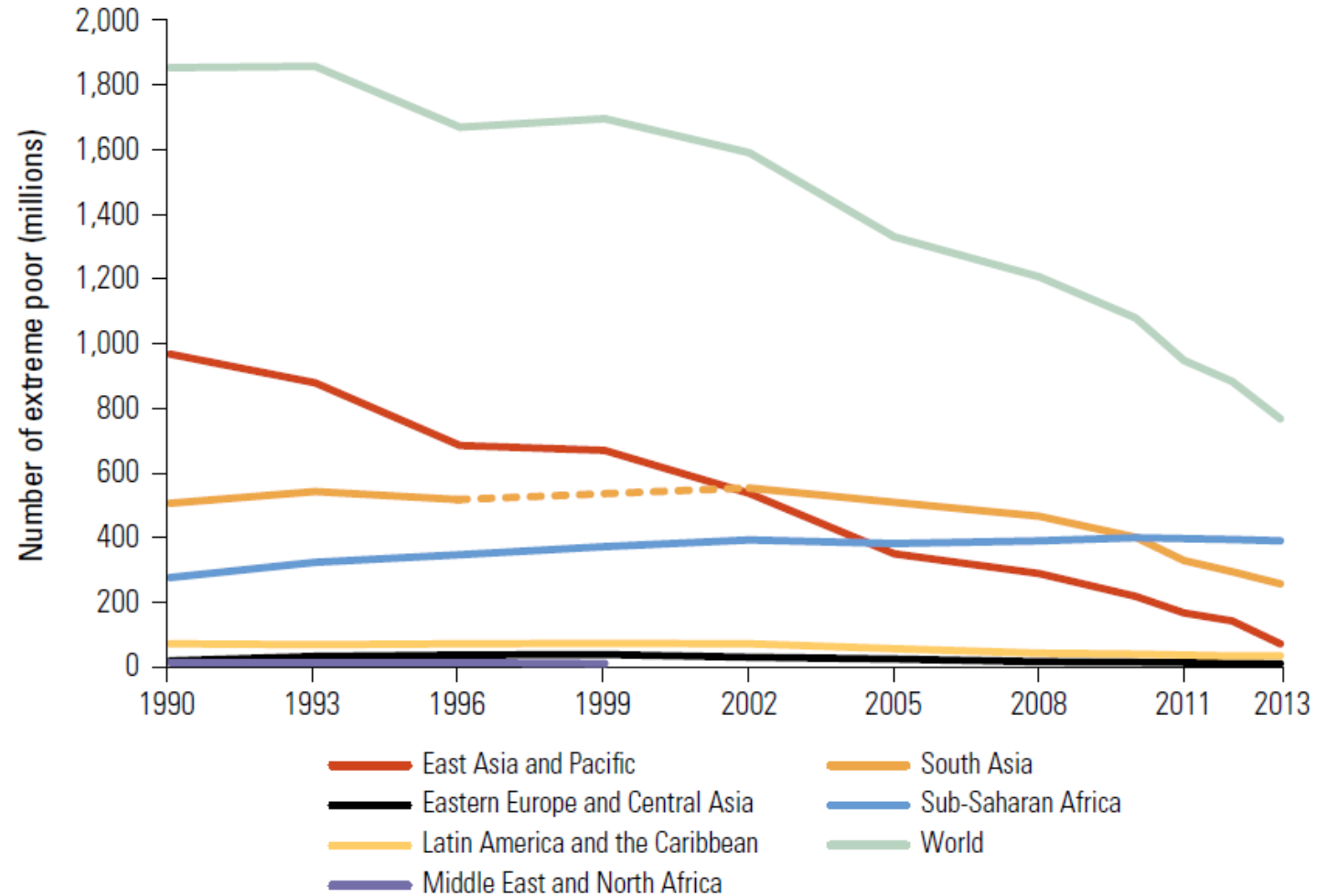
INCOME GROWTH
OF THE BOTTOM 40%



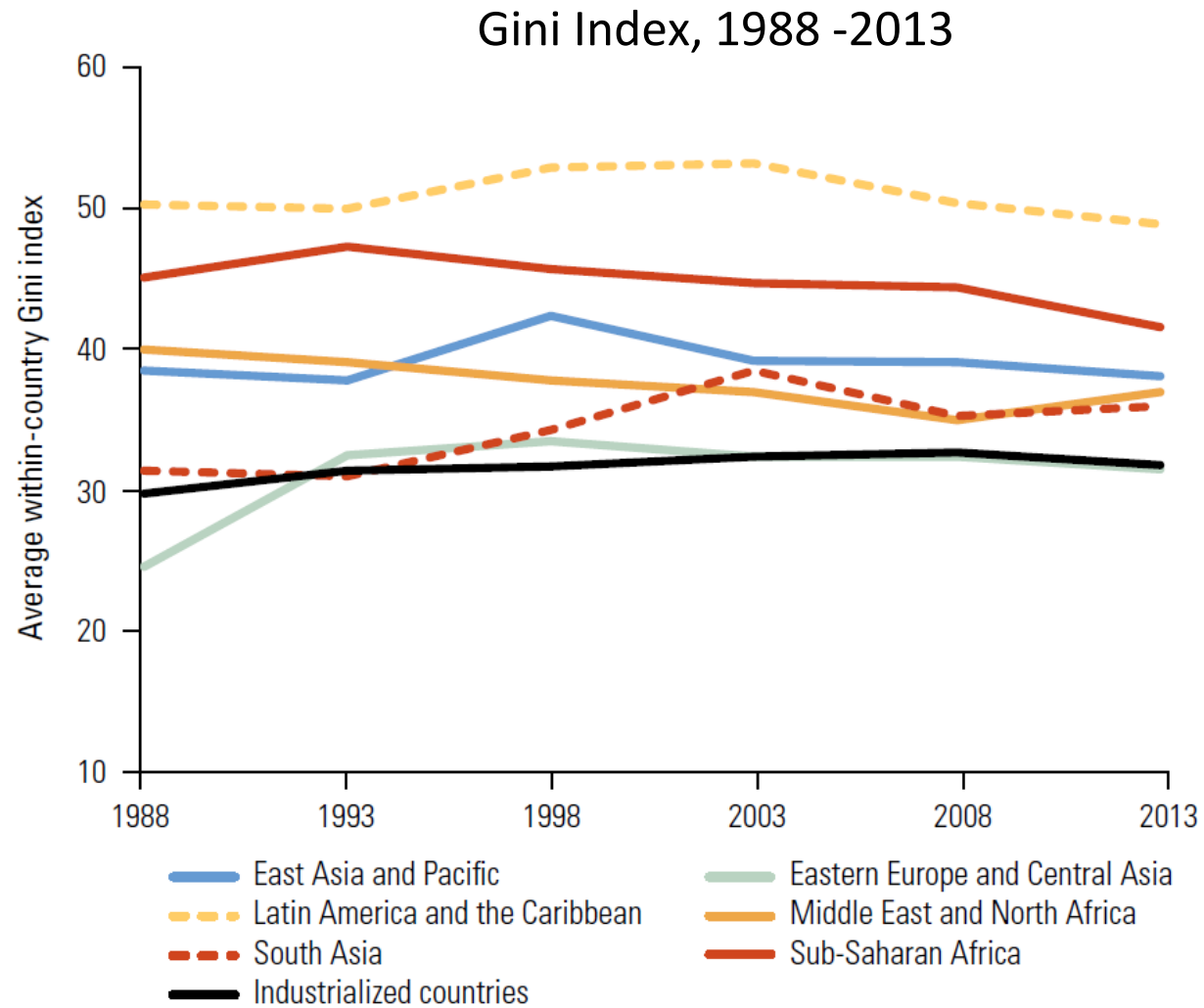
Current challenges

Number of extreme poor has decreased significantly...

Number of Extreme Poor, 1990-2013



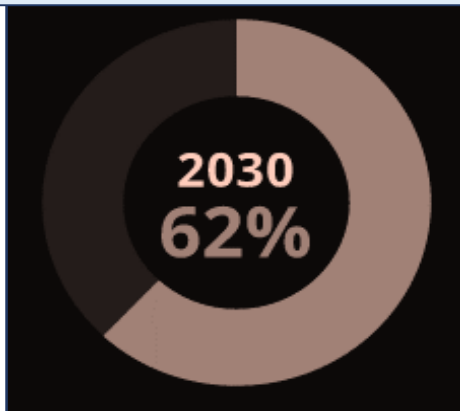
... but limited improvement in shared prosperity within countries



The critical components and changing nature of fragility, conflict, and violence

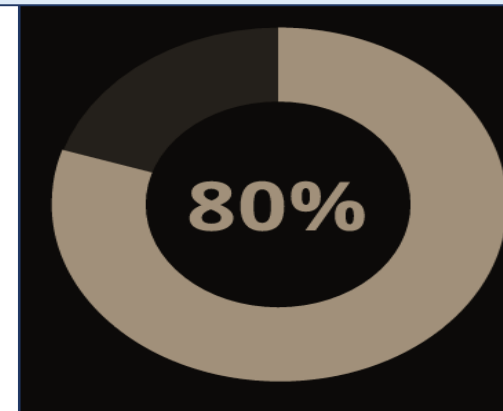
Poverty and fragility increasingly interlinked

- 2 billion people live in countries affected by FCV;
- By 2030, over 60% of the global poor will live in fragile contexts.



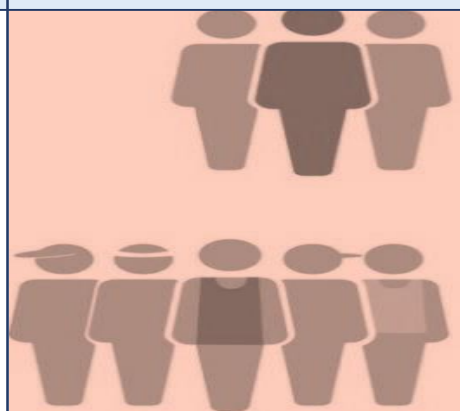
Violence is hampering development

- Conflicts drive 4/5 of all humanitarian needs;
- Conflicts reduce GDP growth by 2 percentage points per year, on average (IMF);
- Averages mask diversity of conflict situations.



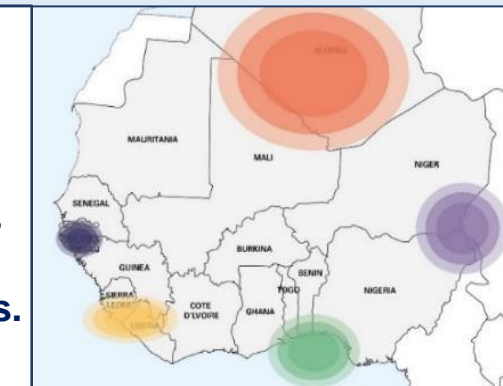
Victims of violence are diverse

- 30-40% of political violence is directed at civilians;
- Women and children disproportionately bear consequences of violence;
- 90% of people killed by violence are young men.

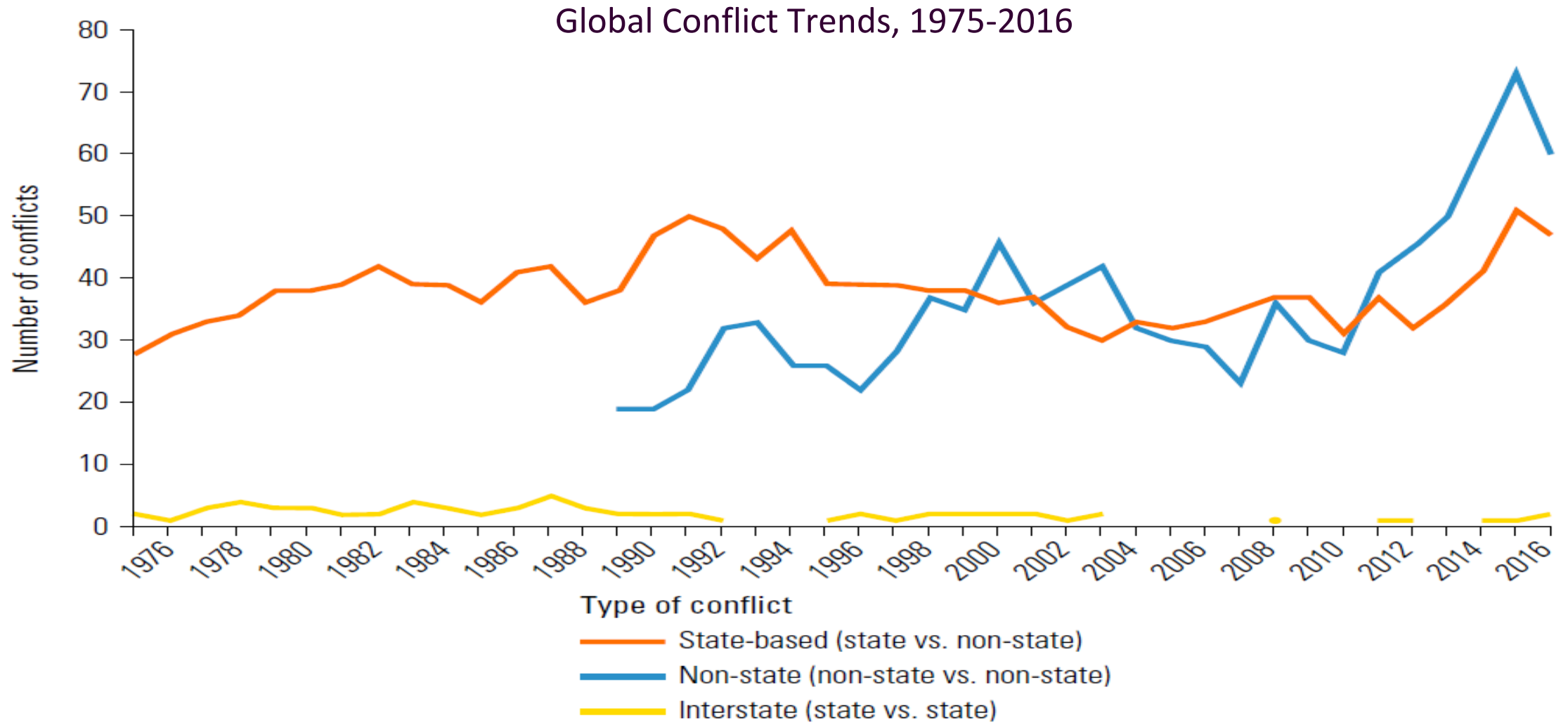


Conflicts have cross-border spillovers

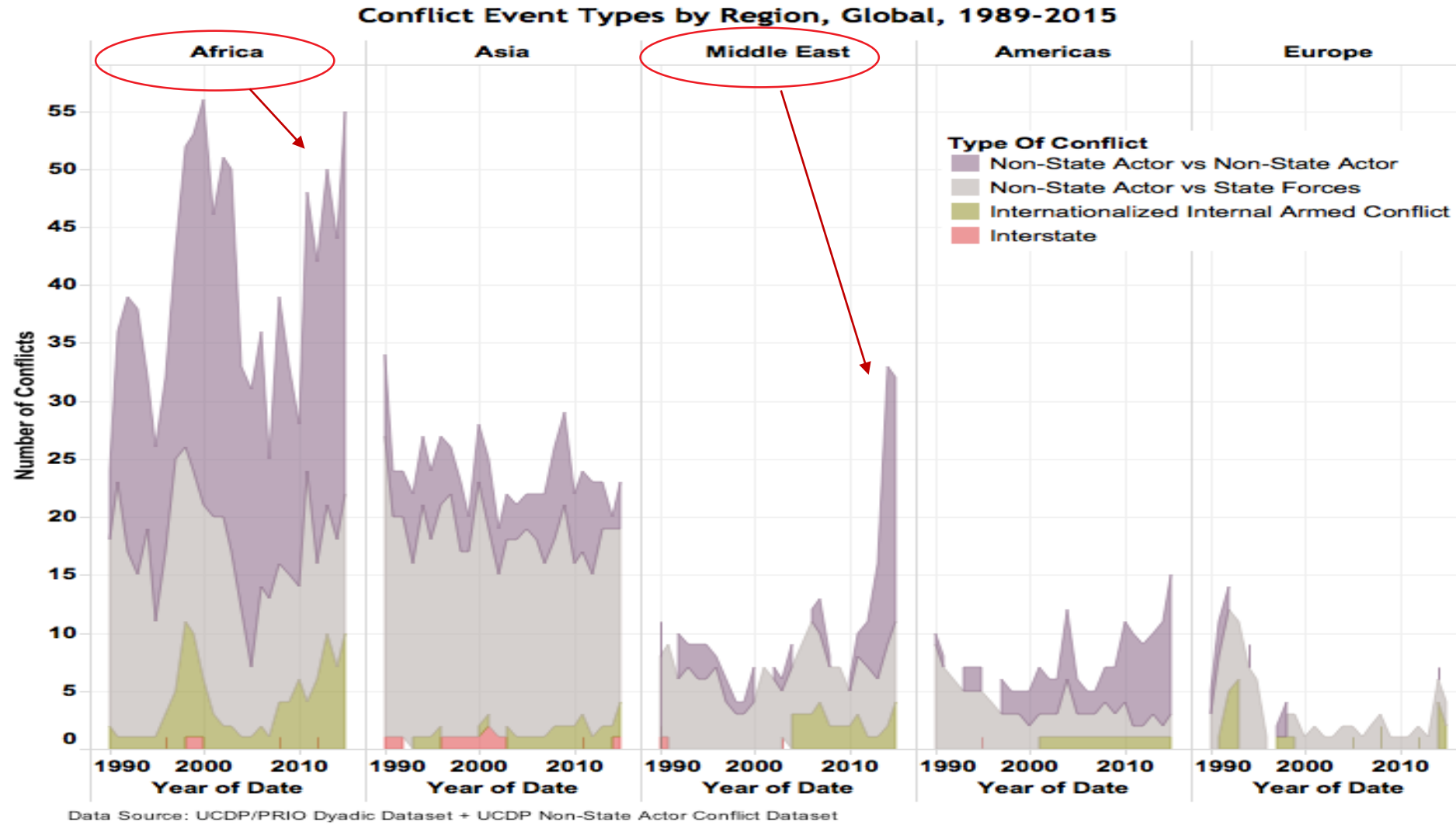
- Many conflicts occur sub-nationally or across borders;
- Unmanaged risks and untreated consequences have dangerous and far-reaching spillover effects.



Violent conflict has surged in recent years...

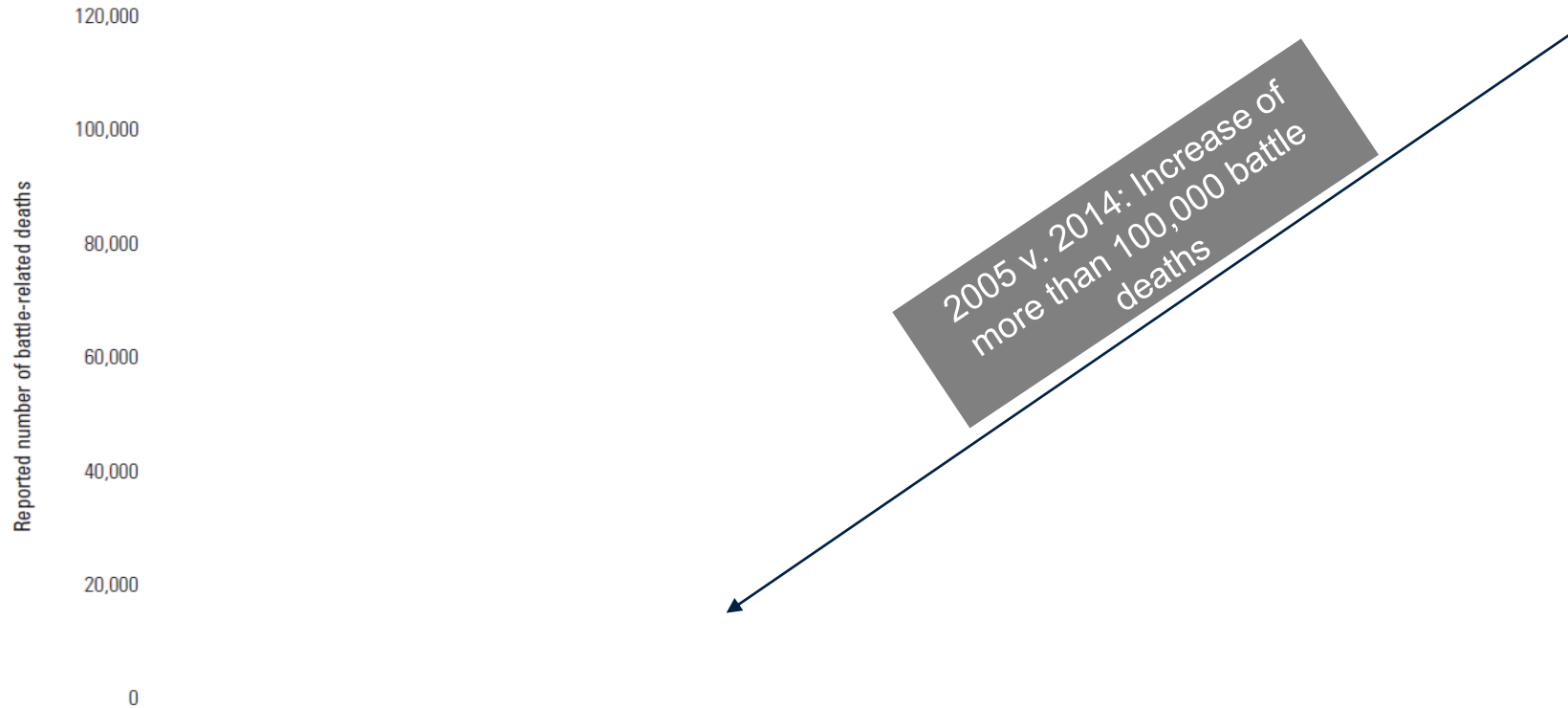


...particularly in the AFR and MENA regions.

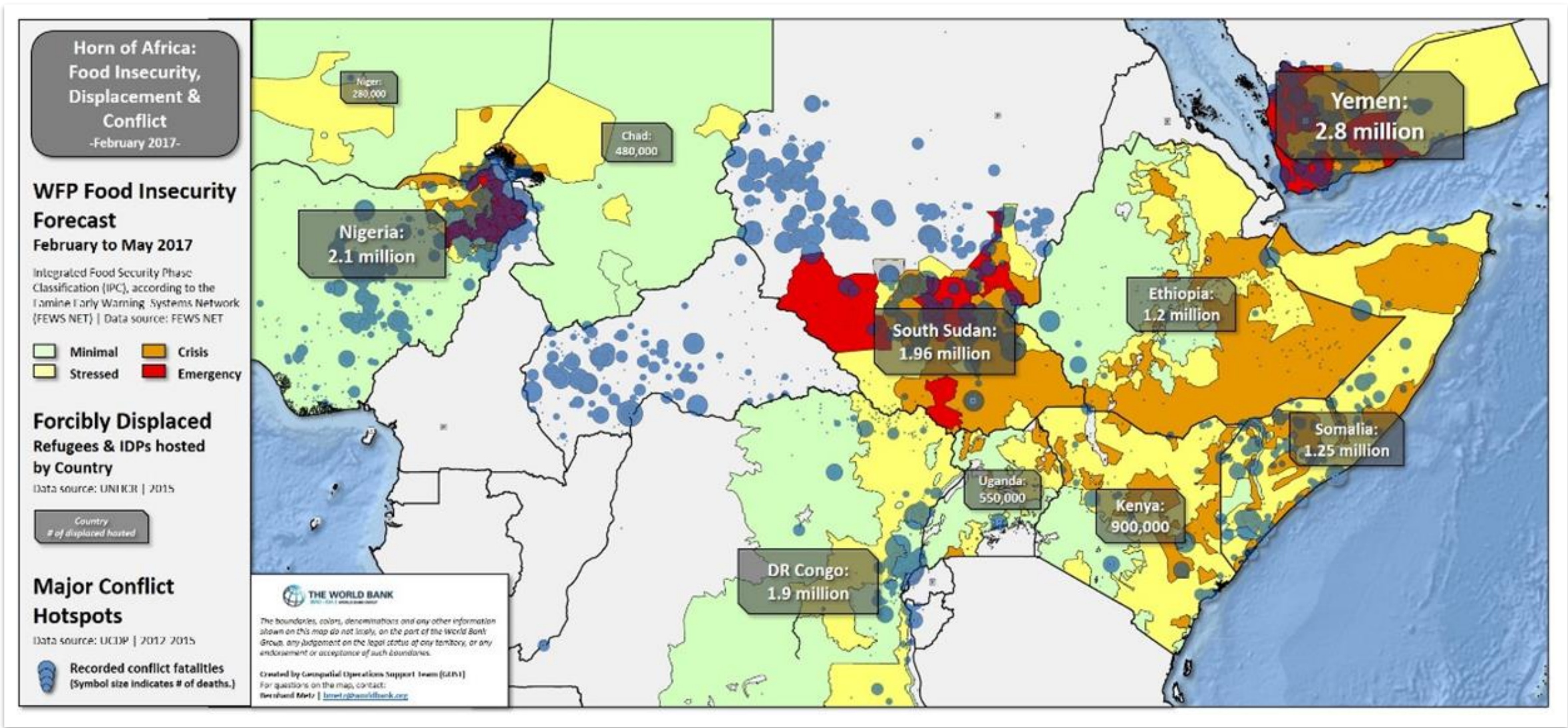


The uptick in conflict has taken a devastating toll in terms of human lives

Number of battle-related deaths worldwide

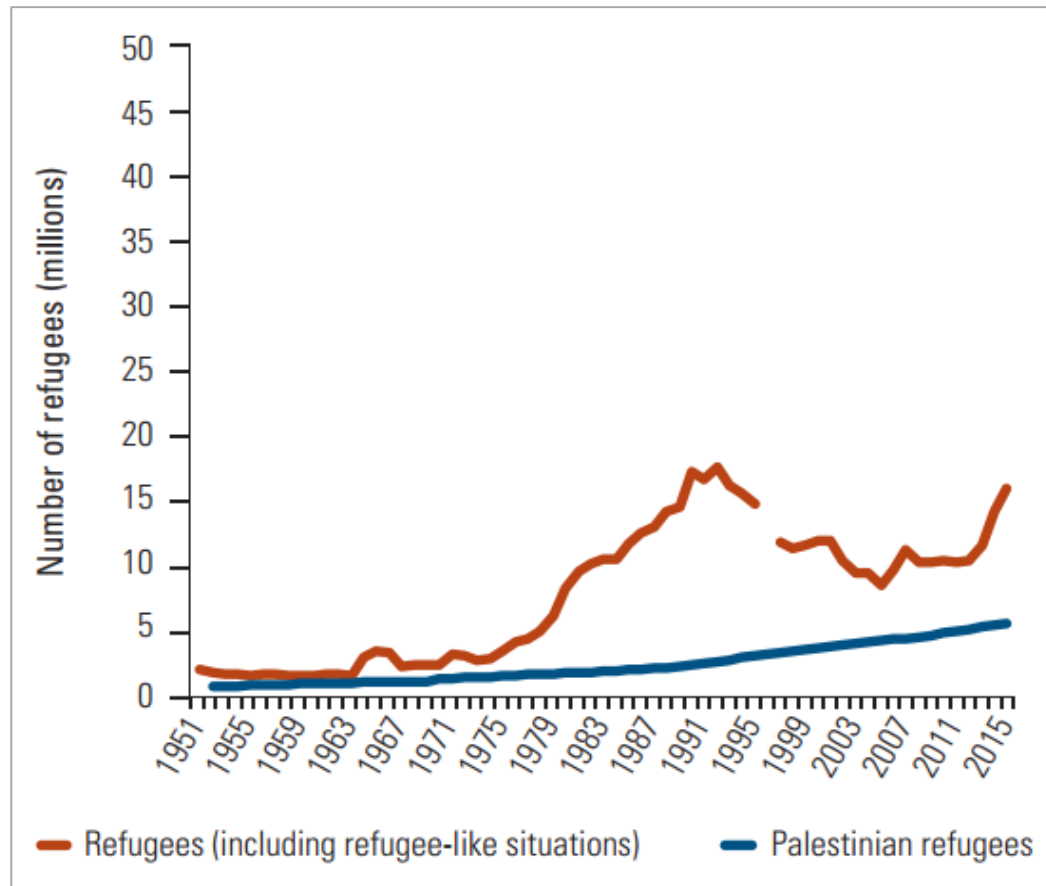


...contributing to severe acute food insecurity and famine risk

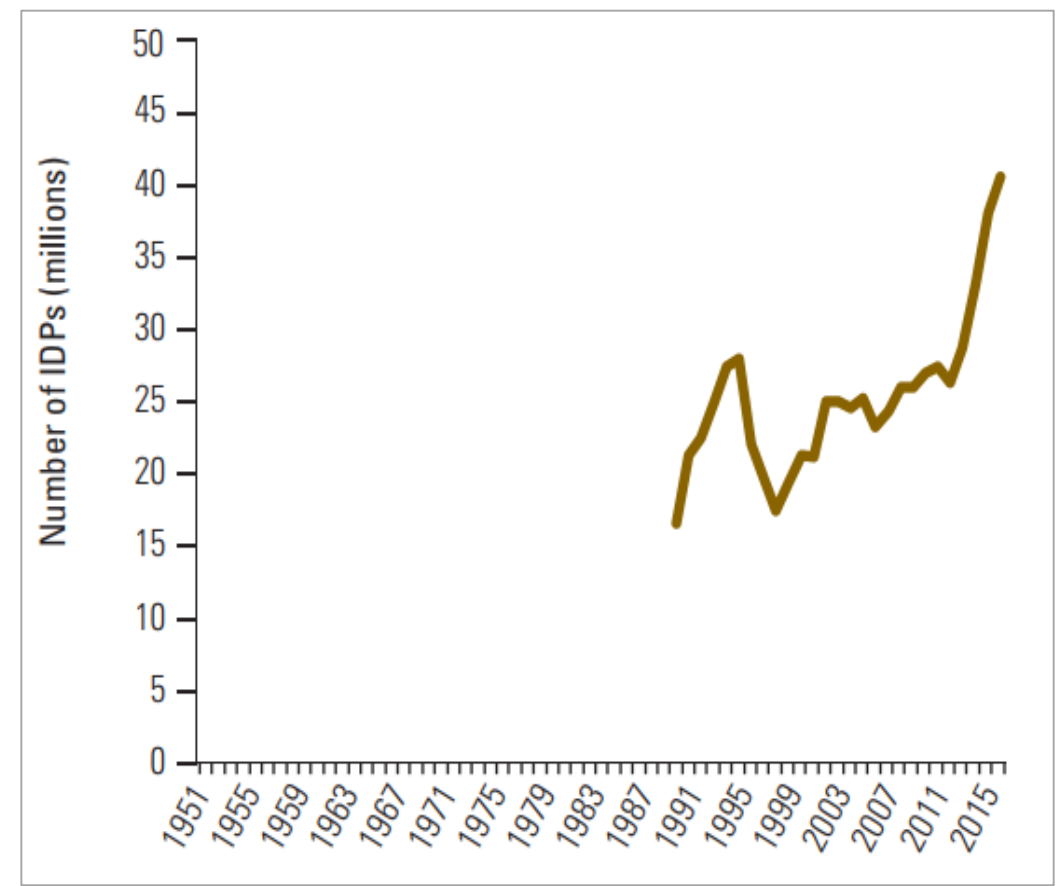


...and leaving 65 million people forcibly displaced across the globe

This includes about 25 million refugees, the second-largest refugee crisis since WWII...



...and a surge of internal displacement to about 40 million IDPs.

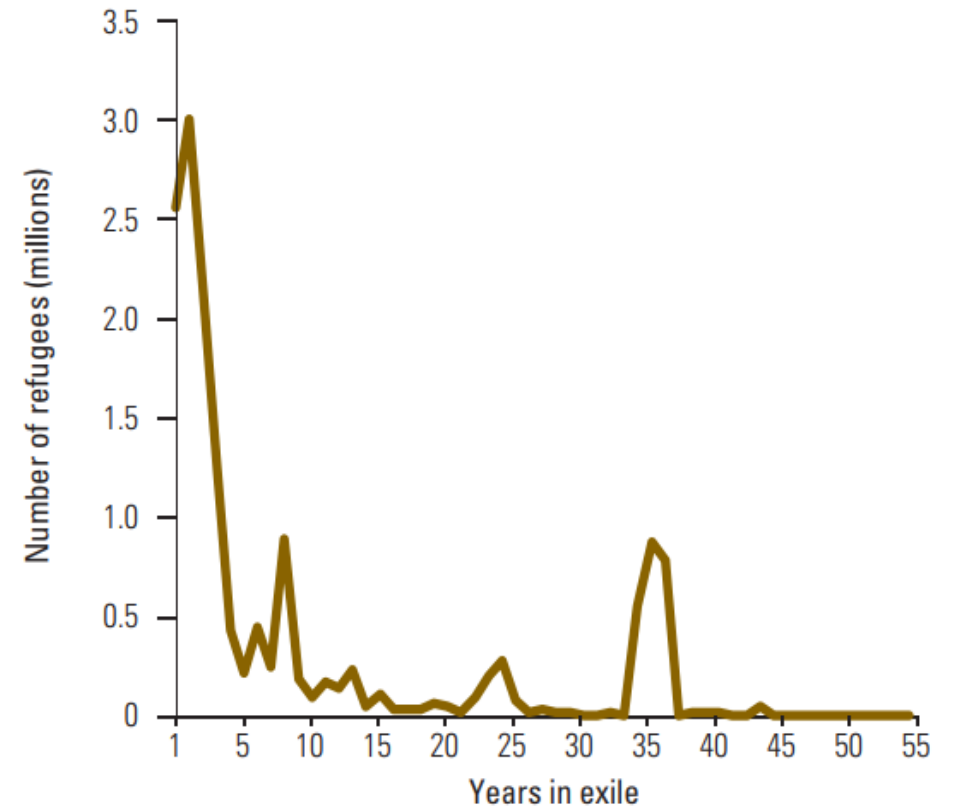
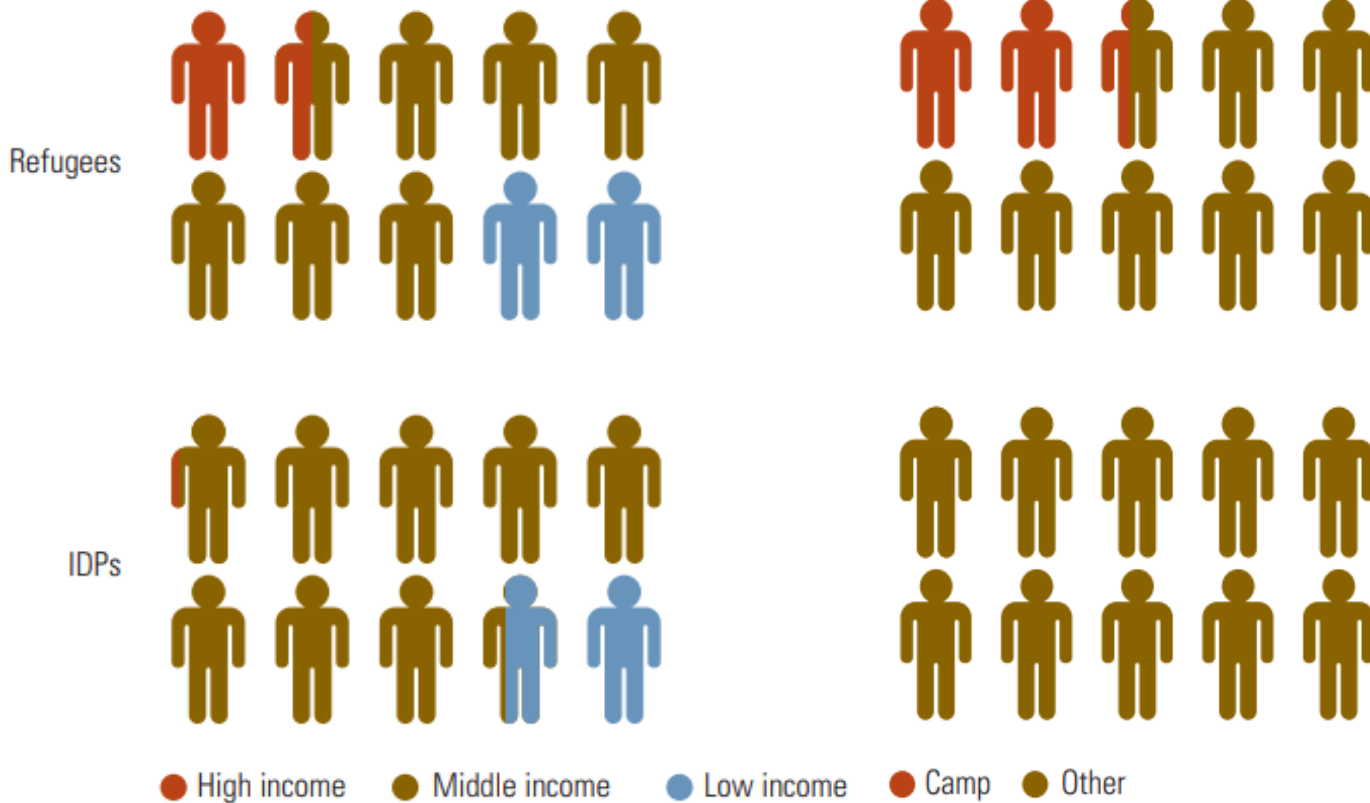


...almost exclusively in developing countries, often for protracted periods.

LICs and MICs host the vast majority of displaced people

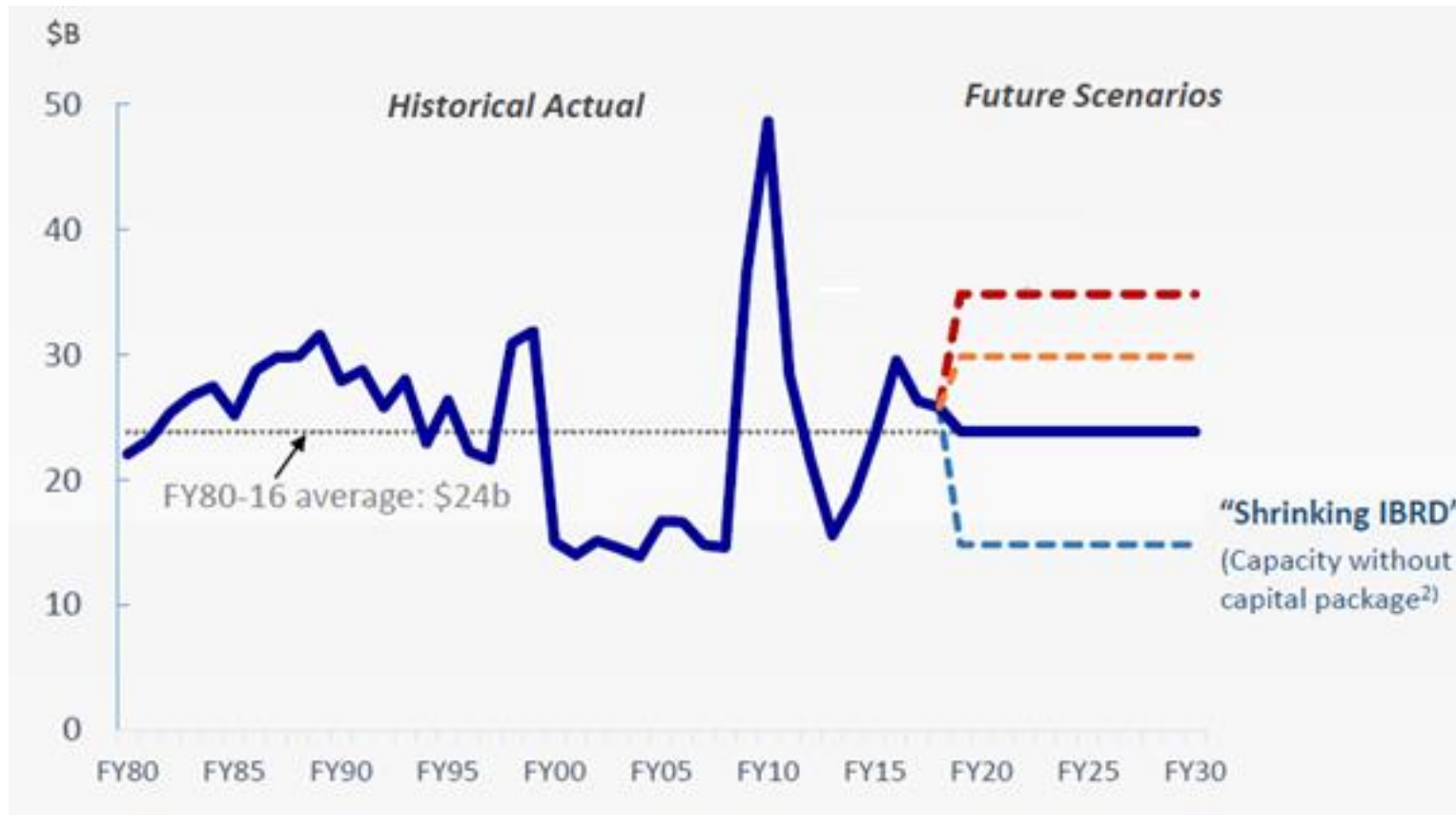
94% of forcibly displaced people live outside camps

Half of refugees have been in exile for more than four years

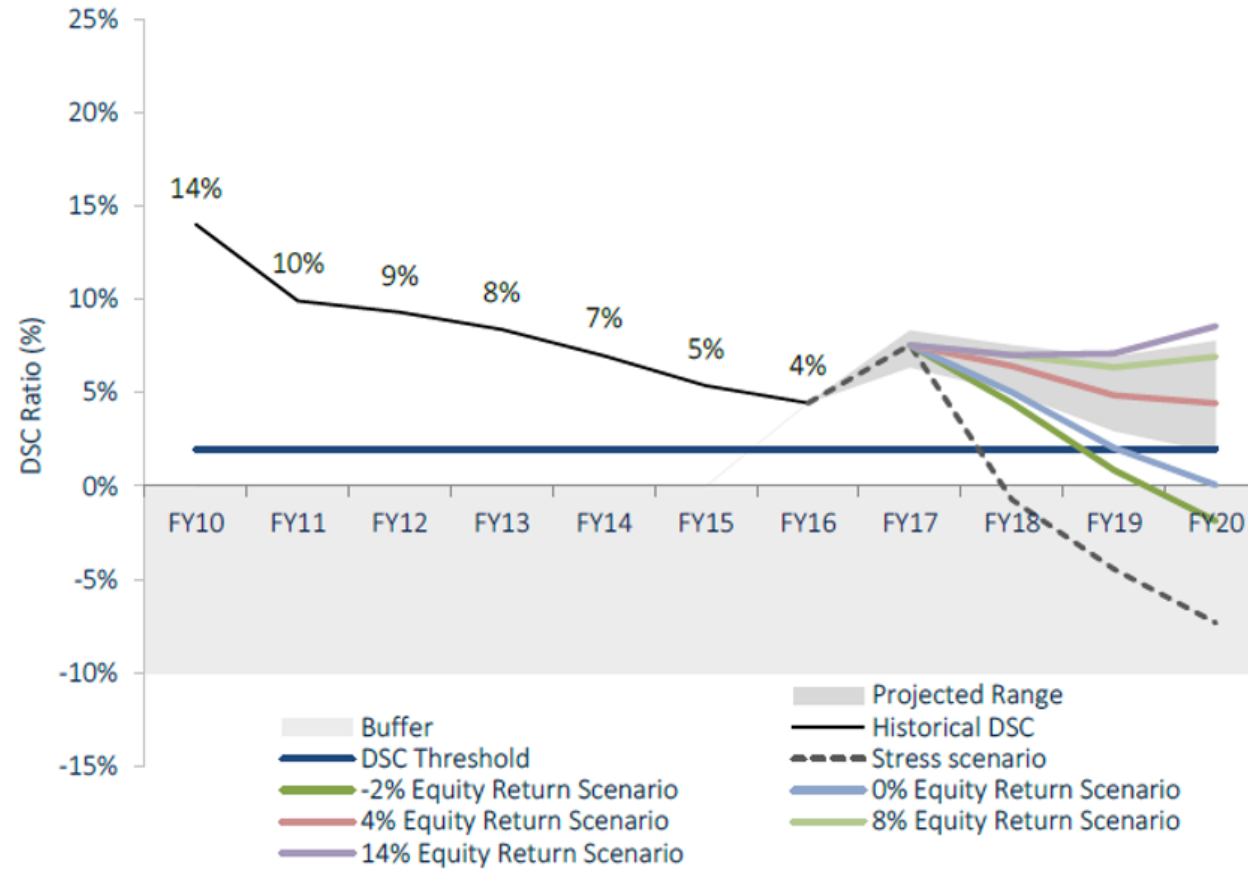


One of the multilateral responses: a capital increase for the WBG

Without a capital increase IBRD lending would drop by 33%



... and would push IFC's deployable capital below the target range



Capital Increase will boost lending capacity IBRD significantly...

Current IBRD Capacity



Callable Capital

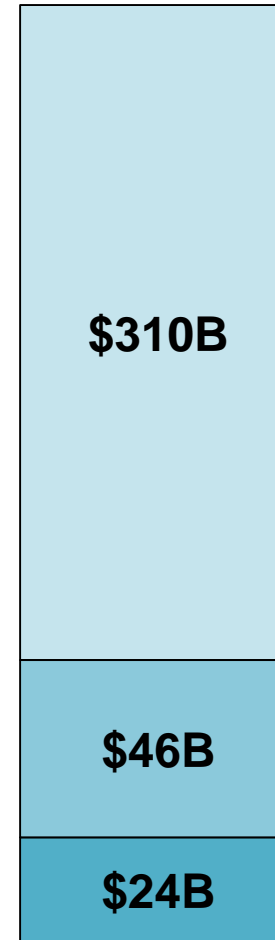
Reserves & Surplus

Paid-In Capital

2018 Capital Increase

- 498,416 New Shares Issued
- \$7.5B Paid-In Capital
- \$52.6B Callable Capital
- Internal Measures:
 - Pricing Increase
 - Efficiencies
 - IDA Transfer Formula

IBRD Capacity in 2030



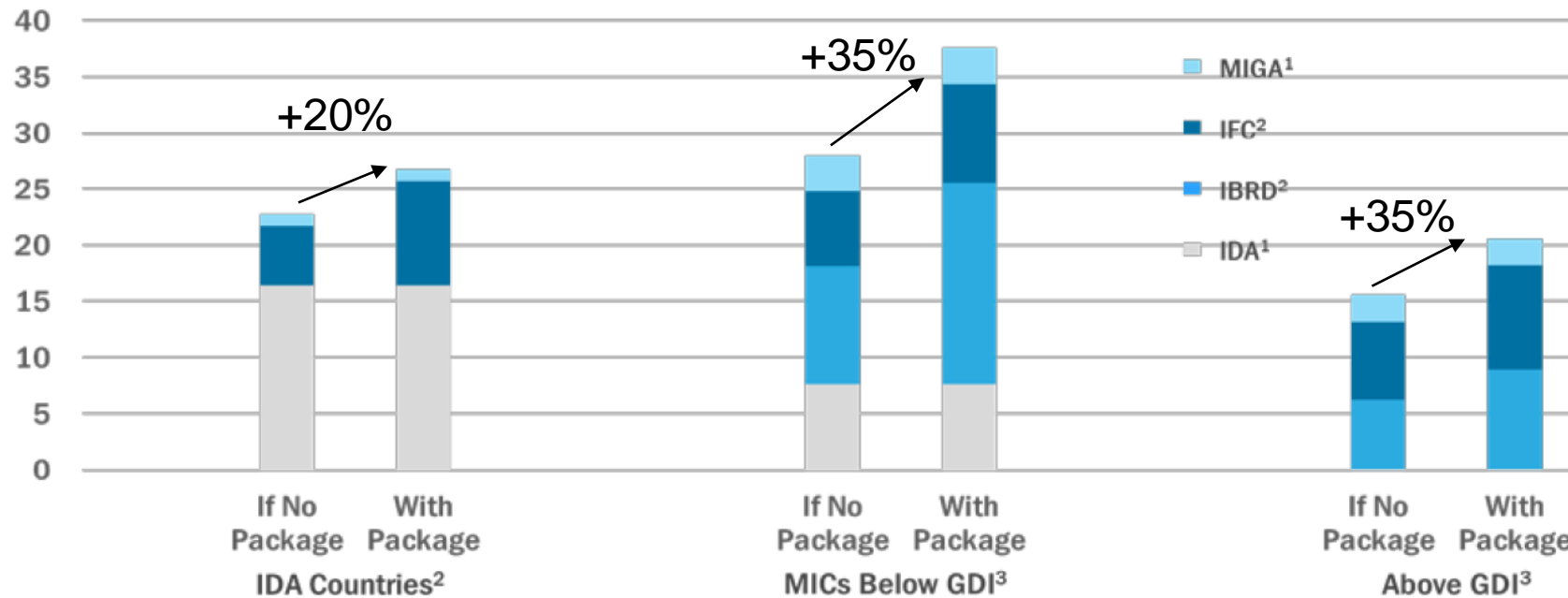
Callable Capital: Increases by \$52.6B

Reserves & Surplus: Increase by \$18B
Earnings Expected (71% of \$25.5 billion growth in capital)

Paid-In Capital: Increases by \$7.5B
(29% of \$25.5 billion growth in capital)

... and the allows all countries to benefit

WBG Average Annual Financing will grow from 60 bn to 100 bn (in 2030) and across all income categories



Policy Package with stronger focus on fragility, climate and gender

		IBRD
ENGAGE ALL CLIENTS	Below GDI Graduation Discussion Income, \$6,895/per capita	<ul style="list-style-type: none"> 70% of IBRD by FY30 \$260B cumulative IBRD financing (\$110B incremental)
	Above GDI	<ul style="list-style-type: none"> \$125B cumulative IBRD financing (\$40B incremental) More systematic approach toward Graduation in CPFs
	Small States	<ul style="list-style-type: none"> Double IBRD base allocation Exempted from proposed maturity premium increase
LEAD ON GLOBAL ISSUES	Crisis / FCV	<ul style="list-style-type: none"> Increase resources allocated (\$ & footprint) Crisis management platform, prevention & preparedness
	Climate	<ul style="list-style-type: none"> IBRD average climate co-benefits of 30% over FY20-FY30 Incorporate shadow price of carbon / GHG accounting
	Gender	<ul style="list-style-type: none"> 55% of operations “gender tagged” by FY30 60% of operations in financial sector with actions on gender gaps by FY30
	Knowledge	<ul style="list-style-type: none"> Knowledge Management Framework / South-South
	Concessional Financing	<ul style="list-style-type: none"> Use of Net Income to provide concessional financing for Global Public Goods
CREATE MARKETS		<ul style="list-style-type: none"> Increase IBRD mobilization ratio to 25% on average over FY19-FY30 \$100B cumulative IBRD mobilization volumes over FY19-FY30 in nominal terms, double than if no package Implement Cascade / Maximizing Finance for Development with IFC/MIGA

Capital Package negotiations World Bank Group 2017/2018

- Donors: improve financial sustainability & global public goods & stricter safeguards & more focus on fragility and poorest countries
- Borrowers/middle income countries: increase IBRD lending envelop, bigger IFC and increase voice
- Borrowers/lower income countries: more access to IDA lending (most attractive terms)
- Lesson: build coalitions, right sequencing, increase the pie

Some lessons as Executive Director

- Dealing with (local) political economy remains a challenge for WBG, this weakness is a strength as well
- Executive Directors need to continue to reach out
- WBG needs to continue to serve all client groups
- WBG needs to move closer to the client/less DC based

FSAP Romania (July 2018) - Need for follow up

- Romania's financial sector has strengthened significantly over the last years
- However, some vulnerabilities are emerging (holdings of domestic sovereign paper, NPLs in mortgage portfolio's when interest rates increase, still a relatively high share of FX dominated loans)
- NBR is transitioning to a risk-based supervisory approach that needs further enhancements
- Romania has made significant progress in the development of capital markets; positive momentum needs to be maintained
- Financial intermediation is relatively low and declining, financial inclusion lagging
- State could play a more targeted role towards closing development gaps and consider establishing a Financial Sector Development Committee

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