

**The Convocation Address of Shri N. K. Singh,
President, Institute of Economic Growth,
Co-Convenor, G20 Independent Expert Group on Multilateral Development Banks,
at the 18th Convocation of the Indira Gandhi Institute of Development Research**

- At the outset, let me express my gratitude to the President of the Indira Gandhi Institute of Development Research, Shri Shaktikanta Das, Governor of the Reserve Bank of India, for this privilege and opportunity for me to speak at the 18th Convocation address.
- I am equally grateful to Dr. Basanta K Pradhan, Director and Vice Chancellor, for enabling me to visit this leading research institute which has believed in enduring academic excellence.
- I compliment the Dean of Academic Affairs, Dr. Srijit Mishra, the Registrar, Dr. Jai Mohan Pandit, the faculty members, and the students who would be receiving their degrees today.
- I have come to this institution on earlier occasions. Over the years, it has continued to remain an important and relevant leading research institution in India. Let me convey my warmest appreciation and hope that it would continue its distinguished academic track record.
- I have been asked to speak today on the broad subject of reforming Multilateral Development Banks and the 21st century agenda.

What is Multilaterism?

- The most common definition of multilateralism is where 3 or more actors engaged in voluntary and institutionalised cooperation governed by norms and regulations with rules which equally apply to all states.
- It is this philosophy, embedded in the United Nations Model of Universal Membership, which is fundamental to multilaterism. It is also embedded in the belief that multilateral institutions are better equipped to enhance cooperation for economic growth and productivity by garnering investments both for public and private outlays.
- Nonetheless, given the somewhat fractured geopolitics, the global multilateral system of governance is encountering renewed challenges.
- In the oldest arrangement, it was unilateralism, which then got somewhat extended to bilateralism, and then to regionalism, particularly preferential agreements among a subset of nations, and finally, of course, multilateralism.
- The question which is relevant today is whether plurilateralism is the next stage of evolution in the arrangement for international cooperation. Plurilateralism is premised to bring like-minded partnership in many sectors as possible without being at the mercy of being first admitted as new members in the earlier organization.

- Experience tells us, however, that any holistic classification between different forms of cooperative arrangements would be bereft of reality and, indeed, could be counter-productive. Plurilateral arrangements can co-exist with other forms of cooperation like regional, bilateral, and, of course, multilateral. Therefore, multilateralism would be a spectrum in the cooperative framework of various kinds of arrangements in which multilateral stakeholders may express their preference.

Post-War Bretton Woods Architecture and its Evolution

- Coming back to the broad theme of Multilateral Development Banks, we are aware that at the end of the Second World War, delegates of 44 countries met in Bretton woods, New Hampshire, for the United Nations Monetary and Financial Conference, 1944, to agree upon a series of new rules for international cooperation and reconstruction post WW-II. These led to the establishment of rule based international economic architecture. Separately, there were efforts elsewhere for establishing a sound political security architecture embedded in the United Nations and its various organs, including the Security Council.
- The above conference resulted in the formation of 2 institutions, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). The IMF was charged with the maintenance of a system of fixed exchange rates centred on the US dollar and gold.
 - According to Article 1 of the Articles of Agreement of the IMF, the purposes are to promote international monetary cooperation, facilitate the expansion and balanced growth of international trade, promote exchange stability, assist in the establishment of a multilateral system of payments, give confidence to members and to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members. (Articles of Agreement of the International Monetary Fund)
- The IBRD, now known as the World Bank Group (WBG), was responsible for providing financial assistance for reconstruction after WWII and the economic development of less developed countries.
- In the Final Act of the United Nations Monetary and Financial Conference (1944), it was agreed the Bank should assist in providing capital through normal channels at reasonable rates of interest and for long periods for projects to raise the productivity of the borrowing country. An article was drafted based on an agreement that the Bank should guarantee loans made by others and, through their subscriptions of capital, all countries should share with the borrowing country in guaranteeing such loans.
- The World Bank approved its first loan of, what was at that time a large amount, of \$250 million for France. In real terms, at that time, it was one of the largest multilateral efforts at reconstruction. Subsequently, in 1948, when the Marshall plan took over post-war reconstruction efforts in Europe, the Bank shifted to funding infrastructure projects around the world in sectors such as power, irrigation, and transportation.

- Over the years, the World Bank membership expanded, and evolved its priorities, arms and instruments of lending to meet the needs of its members and address challenges that emerged over time.
 - For instance, the bank entered the bond market in 1947, created the International Finance Corporation (IFC) in 1956 as an affiliate to focus on the private sector, created the International Development Association (IDA) as a part of the WBG to provide resources for less creditworthy members.
 - By the 1970s, the World Bank's projects aimed to help the poor directly. The first loan for building environmental safeguards was given in 1971.
 - In 1975, separate financial arrangements were also agreed on, providing development assistance to eligible countries on terms which represented a blend between those of the IBRD and IDA.
- The new millennium saw other developments. The United Nation's Millennium development goals were adopted in 2000 covering a wide gamete of economic parameters, and subsequently replaced by the Sustainable Development Goals in 2015.
- As of date, the WBG comprises the following organisations:
 - **IBRD** that lends to low-and middle-income countries, **IDA** that lends to low-income countries, **IFC**, which lends to the private sector and **MIGA** that encourages private companies to invest in foreign countries.
- While the World Bank Group is the oldest and the largest Multilateral Development Bank (MDB), over the years, several other MDBs and regional development banks (RDBs) have emerged. Today, about 15-16 prominent MDBs and RDBs exist.
- The original mission of the World Bank represented the twin objectives of ending extreme poverty by 2030, and promoting shared prosperity by boosting the income of the poorest 40% in each country. On the record so far, there has been an 8% reduction (8.08%, 656.7 million from 713.8 million) in extreme global poverty since 2020, although that is 11% more (11.48%, 581.3 million compared to 656.7 million) than pre-pandemic projections. (World Bank, Extreme Poverty 2015-22)
- However, the world is beset today with a multiplicity of problems. First and foremost, the persistence of extreme poverty with 23 countries in Africa not even reaching the minimum \$ 2.15 per day is a far cry from \$ 6.85. Far from shared prosperity, income divides in the region and within the country have increased.

On Debt

- The situation is even more serious. The public external debt-stock of emerging markets and developing economies is large and it is rising. Nearly one-fifth of it is from MDBs.

- Developing countries' external debt has increased by over 175% since 2008 to \$ 3.9 trillion in 2021.
- A sizeable amount of debt (57%) is from private bondholders and private creditors, followed by MDBs (21%) the Paris Club (6%) and China (4%).
- Since 2020, the world has witnessed declines in growth, increases in poverty, and reversals in human development. The number of people in extreme poverty increased for the first time in decades by 11% and more than 3 billion people still live below \$6.85 a day.
- Shared prosperity shows similar trends, as measured by the prosperity gap. About 349 million people across 79 countries are experiencing acute food insecurity.
- There is a need to prioritise challenges related to Global Public Goods (GPGs) such as climate action, energy transition, and future pandemics that impinge growth and development. Many countries are off-track on most Sustainable Development Goals (SDGs).
- Countries need financing to achieve SDGs and combat trans-boundary challenges. These are not mutually exclusive goals, and MDBs, in their current state, cannot meet these huge demands on their finances. Prioritising GPGs will need additional financing from both public and private sectors. There is a need for creating an incentive structure and bring changes to the current operating model of the MDBs.
- International development finance and knowledge remains the cornerstone of development at the global level. All development partners need to ramp up efforts to deploy finance, enable blended financing with private capital, and secure greater levels of concessionality to incentivize work on global challenges, without crowding out other development priorities in the most vulnerable countries.

Are the Multilateral Institutions Equipped to Take on New Challenges?

- It is widely believed that the current global financial order is no longer fit for the purposes of dealing with the unprecedented and multifaceted challenges confronting the global community.
- To make a meaningful dent on poverty, achieve shared prosperity and fund GPGs, MDBs must become relevant to the growth and development needs of all developing countries, including middle income countries. There is a need for expansion of the mandate of the MDBs in the context of new trans-boundary challenges matching the ability of MDBs to finance these larger goals without reducing development financing.
- Given the high levels of financing needs of both low-income and middle-income countries and the high financing needs for climate action, along with reduced budget space and increased debt vulnerabilities, induced by the Covid-19 health crisis, a holistic approach for reforming MDBs is required by the international community. Several systemic issues need to be addressed.

- How can the incentive structure of MDBs be strengthened for greater provisioning of GPGs?
- How can the operating model of MDBs be strengthened so that it holds the MDBs accountable for results, especially for adequate provisioning of GPGs?
- How much funding is needed?
 - Emerging markets and developing countries other than China will need to spend around \$ 1 trillion per year by 2025 and around \$ 2.4 trillion per year by 2030, on the specific investment and spending priorities. (Evolution of the World Bank Group, 2023)
 - In terms of external finance, there is a need for a breakthrough to mobilise the \$ 1 trillion per year in external finance that will be needed by 2030 for emerging markets and developing countries (EMDCs) other than China (Songwe-Stern-Bhattacharya, 2022).
 - The WBG also estimates that the total average annual public and private spending needs to address the global challenges of climate change, conflict, and pandemics are \$ 2.4 trillion per year for developing countries between 2023 and 2030. This, of course, embeds in it the need for Global Public Goods.
- Should the twin objectives be broadened enough to include the new challenges of global warming and climate change?
 - The recent meeting in Washington sought to do this by somewhat redefining the purpose. On 30 March, 2023, the Development Committee sought to redefine the purpose.

21st Century Challenges

- The challenges of resources, operating models, governance structure and mission of including trans-boundary challenges.
- Over the years, various G20 Presidencies have sought to address the reform of the multilateral development system in multiple ways. For instance, the German Presidency of 2013, the 2021 Italian Presidency, and the Finance Ministers and Central Bank Governors in 2021 and the Indonesian Presidency of 2022.
- Against this backdrop, the G20 India Presidency has set up an Independent Expert Group (IEG). I am co-chairing the group along with Larry Summers and the purpose of the IEG is to prepare:
 - A roadmap for an updated MDB ecosystem for the twenty-first century, touching upon all aspects of MDB evolution, such as vision, incentive structure, operational approaches, and financial capacity.

- An evaluation of various estimates regarding the scale of funding required by and from MDBs for addressing their and member countries' increased financing needs for SDG and trans-boundary challenges.
- Mechanisms for coordination among MDBs for them to address and finance global development and other challenges more effectively.
- For filling its purpose, the Independent Expert Group needs to address some of the following issues:
 - How can the lending capability be extended?
 - How can the balance sheets of MDBs be optimised?
 - How can greater private capital be mobilised?
 - How can the MDBs as a system be reformed?
- The Multilateral Development Banks are, undoubtedly, in ferment. We must recognise that each of the MDBs have their own shareholding and governance structure. Therefore, while laying down a coherent set of rules and standards on important functions, we need to tread carefully in not impinging on their autonomy. And yet institutional arrangements need to be put in place, which will entail a coherence in the functioning of these multilateral institutions to optimise their inherent lending capability, and more importantly, contribute to global good and, broadly speaking, address the three important functions of:
 - Incentivising private capital
 - De-risking instruments, and
 - Providing greater concessional finance,
- In all this, of course, technology that is provided by multilateral institutions can be used to support developing countries to help them strengthen economic management and reduce poverty.
- What do I expect to come out of my committee? This is not a research committee, I can assure some sceptics. We intend to come out with a set of recommendations, which are tangible and can make a decisive difference. We certainly intend to give suggestion on the optimisation of the balance sheet strength of the World Bank. We certainly intend to be cognizant of the leveraging ability of multilateral institutions.
 - For example, for the World Bank, the amount of capitalisation, so far, namely money put in, is just over \$ 20 billion against which it has successfully undertaken lending operations of over \$ 800 billion. To increase the lending capacity, the need for recapitalisation, in some form or the other, is inescapable. It is curious that the IBRD is an institution which does not have any replenishment cycle. This deserves serious consideration.
- Similarly, other multilateral institutions have effectively leveraged their somewhat modest capitalisation. We are examining how, given this ability of theirs, their lending capability can be substantially enhanced to meet the challenges that lie ahead; the challenge of meeting the SDGs , the original mission of eliminating extreme poverty, and shared prosperity.

- It is imperative to leverage more of MDBs internal resources and optimise their balance sheets for a higher lending. The present structure allows us to look at various methods for doing this. For example, evaluating simulations such that MDBs can operate with higher leverage and at a marginally increased level of risk.
- The MDB financing targets set by the different committees, will require mobilization of private capital.
 - However, for that, the committee has to evaluate the implications that it might have on the operating models of the MDBs. Broad and deep changes are likely required to significantly strengthen performance, such as first loss guarantees, realistic return targets and risk management, among others.
- At the same time finding, perhaps, a way in which the compelling needs of Global Public Goods, trans-boundary challenges, and the vulnerabilities arising from climate change can be suitably and credibly financed. We want to make sure that the emerging trans-boundary challenges of Global Public Goods do not come at the expense of resources available to address the original twin missions of most of these multilateral institutions.
- The world is in ferment. We need to be innovative. We need to ensure that the MDBs rise up to the challenges which are contemporary and relevant to the 21st century

It is said that “the world must learn to work together, or finally it will not work at all”. Trust coherence, congruency, and audacity would be the hallmark of this transformative mission