Needs of Countries in Special Situations:

African Countries, LDCs, LLDCs, and SIDS as well as Specific Challenges Facing the Middle Income Countries

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Unique Challenges

- African countries – growth with little poverty reduction in many countries

- LDCs – limited investment, poverty, challenges of human development, jobs, governance and regulation, technology, some in conflict

- LLDCs – transport and trade

- SIDs – scale, isolation and vulnerability to climate change

- MICs – home to 75% of world’s poor, second generation development challenges, many caught in a “middle income trap”
MDGs Progress

The Middle Income Trap

- Of 101 middle-income economies in 1960, only 13 became high-income by 2008
- Sharp deceleration of growth
- Stagnation of innovation and productivity

Good Policies for Development are not the Same Everywhere

<table>
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<th>Jobs challenge</th>
<th>Which countries and which policies?</th>
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<td>Agrarian economies</td>
<td>Vietnam</td>
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<td>Land reform, agricultural extension, and market incentives</td>
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<td>Conflict-affected countries</td>
<td>Rwanda</td>
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<td>Reintegration of former combatants and business reforms</td>
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<td>Urbanizing countries</td>
<td>Korea, Rep.</td>
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<td>Land-use policies and comprehensive urban planning</td>
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<td>Resource-rich countries</td>
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<td>Fiscal stability rules and export-oriented policies</td>
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<td>Small island nations</td>
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<td>Active use of return migration agreements</td>
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<td>Countries with high youth unemployment</td>
<td>Slovenia</td>
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<td>Competition in product markets through trade integration</td>
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<td>Formalizing countries</td>
<td>Brazil</td>
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<td>Noncontributory programs, rules simplified and enforced</td>
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<td>Aging societies</td>
<td>Poland</td>
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<td>Disability and pension reform, higher retirement age</td>
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Source: Adapted from World Development Report 2013: Jobs
Universal Challenges

– Leave no one behind

– Put sustainable development at the core

– Transform economies for jobs and inclusive growth

– Build peace and effective, open and accountable public institutions

– Forge a new global partnership

Source: High-Level Panel of Eminent Persons on the Post-2015 Development Agenda
An Implementation Challenge: Financing the Post-2015 Development Agenda

- The financing for development requirement is large, and aid will meet only a small part of it.

- Countries will need to put in place sound policies and institutions in order to use existing resources more effectively and leverage other sources of financing to achieve the MDGs.

- It also needs to adapt to changes in the global economic and financing landscape and tap financing from diverse sources:
  1. Better and smarter aid
  2. Domestic resource mobilization
  3. Private finance for development
  4. Innovative sources of finance, including for global public goods

- The relative significance of each source, and the associated leveraging challenges, will differ between countries.
A Challenge to Grow and Diversify Finance

Net financial flows to *developing countries*, 2010

**Total: USD 1,267 billion**

- Worker remittances: 25%
- FDI: 40%
- Long-term debt (official): 5%
- Long-term debt (private): 12%
- Portfolio investment: 10%
- ODA grants: 7%

Gross financial flows to *fragile states*, 2010

**Total: USD 125 billion**

- Foreign Direct Investment: 22%
- Worker remittances: 38%
- ODA: 40%


Source: Fragile States 2013, OECD

NB: Based on OECD definition of fragile states
ODA Still Falls Short of Monterrey Target

DAC Members' Official Development Assistance as a percentage of GNI, 2000-2011

Source: MDG Gap Taskforce Report, 2012
Recent Downturn in ODA

Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. For many countries in Africa, least developed countries, small island developing States and landlocked developing countries, ODA is still the largest source of external financing and is critical to the achievement of the development goals and targets of the Millennium Declaration and other internationally agreed development targets.

**Monterrey Declaration, 2002**

*Source: OECD DAC Database*
Emerging Donors Could Change the Aid Landscape

ODA from Non-DAC donors, excluding BRICS

Emerging Donor Trends

Emerging donors, led by China, provide limited aid now as defined by the OECD but they also contribute through other external flows and in-kind assistance.

Estimated aid from BRICS, 2003-2009 (USD billion)

For the purpose of comparison, in 2009, net ODA from DAC members was 119.8 bn USD.

Emerging Donor Trends

ODA from Saudi Arabia, South Korea, and Turkey

Maximize the Impact of ODA

Limited progress on certain aid modalities but improvement still needed on most indicators

Progress in Implementing the Paris Declaration

Source: MDG Gap Taskforce Report, 2012
Domestic Resource Mobilization

Taxation capacity improving in MICs, progress needed in LICs

Tax Revenue (in % of GDP) by Income Groups, 1994-2009

Source: World Development Indicators
Subsidies are an inefficient means of assisting the poor: only 8% of the $409 billion spent on fossil-fuel subsidies in 2010 went to the poorest 20% of the population.

Fossil fuel consumption subsidies measure what developing countries spend to provide below-cost fuel to their citizens. High-income countries offer support to energy production in the form of tax credits or loan guarantees, which are not included in these calculations since they are directed towards production rather than consumption of the fuel.

Financial and private sector development creates opportunities for entrepreneurship and job creation

**How do financial institutions contribute to economic growth?**

- Improve the allocation of resources
- Lower the cost of financial and nonfinancial transactions
- Facilitate efforts to reduce and trade risks
Improving Financial Inclusion

- Globally, about 50% of adults have a bank account
- The other 50% (2.5 billion) remain “unbanked”

**Adults with accounts at a formal financial institution**

*Source: Global Financial Inclusion (Global Findex) Database, worldbank.org/globalfindex*
Improving Financial Inclusion

Source: Two trillion and counting, IFC & McKinsey, 2010
International Long Term Debt to Developing Countries

Source: World Bank Development Prospects Group
Rise of South-South FDI

South-South FDI rising, although small % of world average

South-South FDI Flows, Worldwide, 1990-2009

Source: John Wilson presentation on Constraints and Opportunities for Growth in the LDCs: Research to Support Action, World Bank DECRG, 2012
Leverage the Private Sector: Partnerships

**Maharashtra & Tamil Nadu, India**

**CLIFF COMMUNITY SANITATION PROJECT**

Total initial investment: $7.2 million
- Homeless International
- SPARC (NGO in India)
- Community-based Organizations

**Sao Paulo, Brazil**

**METRO LINE 4**

Total initial investment: $450 million
- Companhia do Metropolitano de Sao Paolo
- 5 Equity Sponsors
- Inter-American Development Bank
- Commercial Banks

**Kenya**

**PRIVATE SECTOR POWER GENERATION PROJECT**

Total initial investment: $623 million
- Kenya Power and Lighting Company
  - IFC
  - MIGA
  - Commercial Banks

**Lake Kivu, Rwanda**

**KIVU WATT**

Total initial investment: $142.25 million
- ContourGlobal
  - Energy Authority of Rwanda
  - MIGA
  - Emerging Africa Infrastructure Fund
  - FMO
  - AfDB
  - Belgian Development Bank

Source: Emerging Partnerships, IFC, 2013 and World Bank, Africa Region.
Leverage the Private Sector: Syndications

IFI participation in syndications contributes to extending maturities of private flows to developing countries and therefore financing long-term productive investments.

Percent of international syndications to the private sector in developing countries where an IFI participated, by income level and maturity, 2007-2010

Source: International Finance Institutions and Development through the Private Sector, IFC, 2011
Innovative Financing

Examples of Innovative Financing

- Global Funds that pool resources for specific issues of global importance, e.g.,
  - GAVI Alliance (formerly the Global Alliance for Vaccine and Immunization)
  - Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)
  - Global Partnership for Education
  - Global Environment Fund (GEF)
  - CGIAR Fund: International agricultural research trust fund

- Carbon markets

- Diaspora (remittance) bonds
  - Remittances are expected to reach US$ 414 billion in 2013.
  - There is scope to further reduce the costs of remittances.
  - Diaspora bonds could be a means to leverage the flow of remittances for investment needs.

Five Critical Components of Development Finance

- Supportive framework for development cooperation
- More inclusive and innovative sources of finance
- Effective domestic resource mobilization
- More private finance for development
- Better and smarter aid
A Life of Dignity for All

More than 1 billion people still live in deep poverty. Tell us what we can do better to help them.