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THE GEOPOLITICS OF IDA21

THE CASE FOR AN AMBITIOUS REPLENISHMENT

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This year, countries will announce their commitments to the 21st replenishment of the International Development Association (IDA). As traditional donors slash their development budgets, World Bank President Ajay Banga is asking for a record $30bn in pledges.[1] Expanding IDA represents a unique opportunity for donors to re-establish trust with developing countries, particularly in Africa, and restore those countries' commitment to the multilateral system.

Summary

In the context of low and declining trust between developed and developing countries, it is in donor countries' strategic interest to make substantial new IDA contributions.[2] Increasingly strained relationships with African states together with a brewing debt crisis are eroding faith in the multilateral system, endangering supply chains of critical raw materials, and opening the door for strategic rivals like Russia and China, while also diminishing the financial and geopolitical firepower of donor countries.

The 2024 IDA replenishment represents a highly efficient way for donor countries to demonstrate that they are listening to African leaders and to boost fiscal space for sustainable development. It could also be the first step of a broader "offer" on debt as part of wider financial architecture reform, greatly

[1] Centre for Global Development, February 2024, **A Fireside Chat with World Bank President Ajay Banga**

[2] "Donor countries" include primarily the G7, who contributed 62% of the net contributions to IDA20, while non-G7 EU Member States contributed 23%. Non-traditional donors to IDA20 contributed 11%.

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expanding access to concessional and grant financing for the poorest countries. The $30bn figure for IDA replenishment that Ajay Banga has requested in pledges would be a good start, and donors should take seriously the G20 Independent Expert Group's call for a pathway to tripling IDA lending by 2030.

Background

IDA is the World Bank's concessional lending arm. Unlike its sister, the International Bank for Reconstruction and Development (IBRD), it lends to the poorest countries in the world – those with a per capita GNI below an annually updated threshold (currently $1,315). Over half of IDA-eligible states (39 out of 75) are in Africa and these countries receive 75% of IDA financing.[3] IDA offers funding to recipients on extremely attractive terms as either concessional loans or grants, with grants making up $7.3bn out of $35.4bn in disbursements in the last financial year.[4]

Among other projects, IDA finances education, health, sanitation, climate resilience and infrastructure, and is the largest source of donor funding for basic social services in the countries it lends to. For these reasons, it is particularly important to borrower countries. As Charles Kenny of the Centre for Global Development has pointed out, repeated surveys have shown IDA's popularity with its recipients.[5]

IDA is also a particularly cost-effective means of channelling Official Development Assistance to the world's poorest to combat climate change and support economic development. IDA can tap into capital markets by issuing AAA-rated bonds to leverage donor contributions up to four times over. Analysis from the Centre for Global Development shows that IDA performs extremely well when compared to other aid providers on various measures of development effectiveness, including prioritisation and transparency.[6]

Because IDA provides funding through concessional loans and grants, it needs to be periodically replenished, and this is done through triennial funding cycles. However, donor contributions to IDA have fallen significantly from their 2012 peak (Figure 1), while Official Development Assistance (ODA) has increasingly

[3] World Bank, last updated September 2023, **IDA financing**

[4] World Bank, January 2024, **Record IDA Replenishment Essential as Debt Crisis Looms**

[5] Centre for Global Development, February 2024, **How Do We Know IDA Works**?

[6] Centre for Global Development, May 2021, **The Quality of Official Development Assistance**

been allocated to thematic funds that target specific global challenges such as public health or climate.[7] Commitments to these "vertical funds" have increased by 95% over the past decade, while fresh contributions to the three largest multilateral development bank (MDB) concessional arms have declined by 15%.[8]

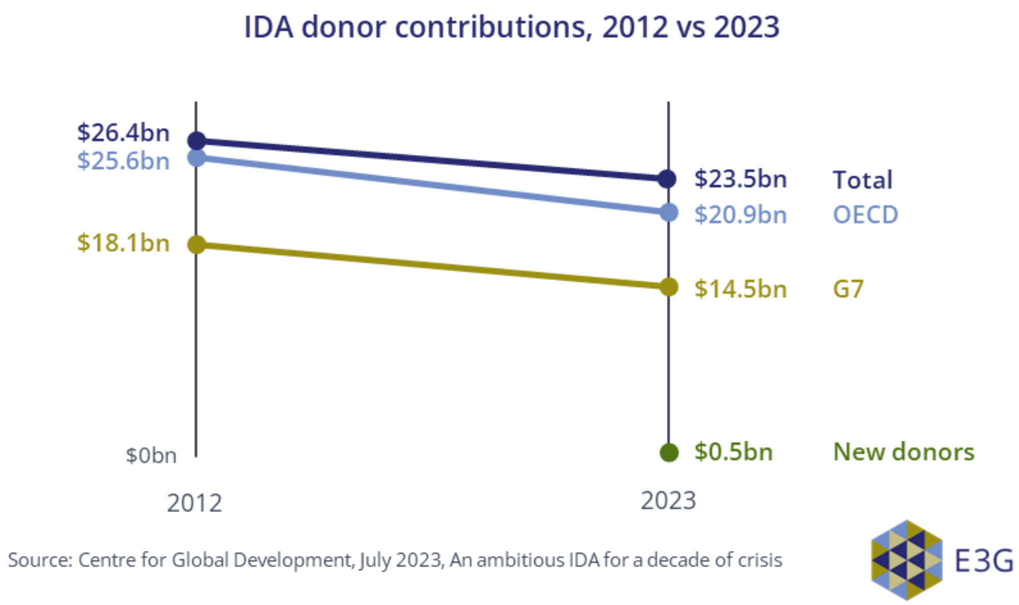

Figure 1: IDA donor contributions overall and from traditional donors have fallen significantly from their 2012 peak.[9]

G7 countries have cut their IDA donations particularly deeply. For example, the UK's 2021 IDA pledge was 54% lower than its previous contribution. Liz Truss, then Foreign Secretary, explained that this would allow the government "to focus funding on UK bilateral programmes and control how exactly taxpayers' money is used to support our priorities".[10] At around the same time, Italy, Germany, Canada, and the United States all reduced their pledges by over 10%.[11]

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[7] The five largest "vertical funds" are the Global Fund to Fight AIDS, Tuberculosis and Malaria; GAVI (Vaccine Alliance); the Green Climate Fund; the Global Partnership for Education; and the Global Environment Facility.

[8] Akihiko Nishio and Francisco G. Carneiro, World Bank Blogs, December 2023, **Balancing act: Maximizing leveraging global aid for greater impact**

[9] Centre for Global Development, July 2023, **An Ambitious IDA for a Decade of Crisis**

[10] Liz Truss, Foreign, Commonwealth and Development Office, February 2022, **20th Replenishment of International Development Association, Statement made on 22 February 2022**

[11] Centre for Global Development, July 2023, **An Ambitious IDA for a Decade of Crisis**

While non-traditional donors like China and Saudi Arabia have increased their contributions to IDA, this has not been enough to cover the shortfall.[12]

World Bank President Ajay Banga is now asking all donors to reverse this trend and to pledge a record $30bn for the IDA21 funding round, which runs until December 2024. This would imply a total IDA lending envelope of over $100bn. Vera Songwe of the G20's Independent Expert Group has called for a similar scale of replenishment, and emphasised the need for donors to continue to increase IDA's firepower to a point where it can triple lending volumes by 2030.[13]

But the signs for a strong replenishment are not promising. France and Germany have followed the UK in announcing major cuts to their ODA budgets, out of which any new funding would have to come. And while G7 statements have called for an "ambitious" replenishment,[14] donor countries have elsewhere emphasised boosting lending through financial engineering, not fresh capital. This approach would risk undermining the concessionality of the loans IDA could offer.[15]

Fraught geopolitics

IDA pledges are often seen by developed country governments as discretionary acts of charity. Of course, the most important justification for funding IDA, as for all aid spending, is to achieve sustainable development goals in all countries. But the importance of investing in those goals can be less salient in donor states experiencing fiscal constraints, as several are today.

However, supporting sustainable development and fighting climate change are not only moral necessities but also geopolitical imperatives in this era of overlapping crises, fragmentation of the multilateral system, fraught North–South relations and declining trust in democratic politics.

It is widely acknowledged that the last few years have seen a significant breakdown in trust between wealthier and poorer countries. Factors that have contributed to this deterioration include vaccine nationalism during the COVID-19 pandemic, broken promises on climate finance, an African debt crisis brought

[12] Centre for Global Development, July 2023, **An Ambitious IDA for a Decade of Crisis**

[13] Centre for Global Development, July 2023, **An Ambitious IDA for a Decade of Crisis**

[14] G7 Finance Ministers and Central Bank Governors' **Statement**, October 2023

[15] Financial Times, March 2024, **World Bank lender to poorest nations seeks record funding haul**

about in part by rising interest rates in the West, perceived double standards over the wars in Gaza and Ukraine, and some countries' *de facto* support for Russia despite its evident imperial ambitions vis-à-vis Ukraine.

Even before the outbreak of war in the Middle East in October 2023, William Ruto, President of Kenya, used his speech to the 2023 UN General Assembly to argue that:

> **"The environment of pervasive mistrust – between the global north versus south, developed versus the developing, rich versus poor, polluters versus victims and net emitters versus net victims – which complicates and frustrates multilateralism, is the inevitable result of promises not kept, commitments not actualised, resolutions not honoured, and principles not observed."[16]**

This sentiment has repeatedly been voiced by leaders from across the developing world – and it has profound implications for the future of the multilateral system, of which the Bretton Woods Institutions are integral parts.

This declining trust is affecting African geopolitics. The BRICS, an intergovernmental grouping which aims to rival and potentially replace Western geopolitical primacy, has recently had its ranks swelled by five new members including Egypt and Ethiopia. The Wagner Group and other Russian private military companies have established strong footholds in Africa partly by riding a wave of anti-Western sentiment. Shifts in attitudes to historical international relationships have also contributed to a series of recent coups in West Africa and the Sahel.

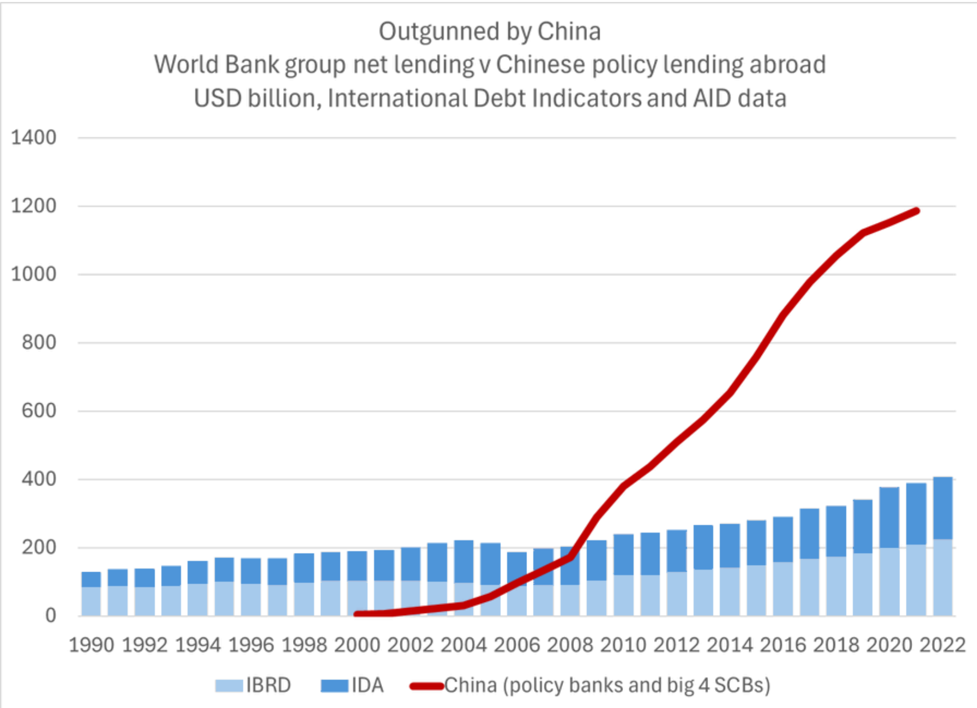
The West's inability to find a workable solution to the debt crisis in Africa is another key factor that is undermining trust and increasing volatility in the region. According to the World Bank, 60% of low-income countries are either at high risk of debt distress or are already in this position.[17] That report also found there have been more sovereign debt defaults in the last three years (18) than in the preceding two decades. The painful and lengthy process by which Zambia sought debt relief demonstrated that the G20's Common Framework for Debt Treatments is not fit for purpose. Given the role that the US Federal Reserve has

[16] Republic of Kenya, September 2023, **National statement by H.E. William S. Ruto PhD., C.G.H. President and Commander-in-Chief of the Kenya Defence Forces addressing the 78th session of the United National General Assembly; 'Multilateralism on Trial'**

[17] World Bank, December 2023, **Developing Countries Paid Record $443.5 Billion on Public Debt in 2022**

played in raising sovereign borrowing costs in developing countries, developed countries' inability to provide material and timely debt relief is tremendously corrosive to trust especially in Africa.

Finally, the emergence of new donors is challenging the West's role in Africa. According to the Chinese Loans to Africa Database, China lent $160bn to African governments and state-owned enterprises between 2000 and 2020.[18] This is part of a broader trend: total Chinese policy lending abroad has outstripped World Bank financing since 2008. While Chinese financing in Africa has slowed in recent years, investment from the Gulf is booming.[19] All the while, data from 2022 showed that the proportion of OECD countries' aid reaching Africa has reached its lowest point this century.[20] New sources of finance can of course be good news for developing countries, but they are often accompanied by new economic risks and political obligations.



Source: **Aid Data**, compiled by **Brad Setser**. SCBs are 'state-owned commercial banks'.

Figure 2: Chinese policy bank lending far outstrips World Bank loans.

[18] Boston University Global Development Policy Centre, **Chinese Loans to Africa Database**

[19] The Economist, March 2024, **Gulf countries are becoming major players in Africa**

[20] Sara Harcourt and Jorge Rivera (ONE), **Official Development Assistance (ODA)**

These dynamics have implications that should trouble Western governments. A wake-up call came when 40 countries, including 17 from Africa, abstained or voted against a US-backed UN resolution condemning the Russian invasion of Ukraine, undermining NATO's attempts to isolate Russia geopolitically. As a separate issue, hostility to the West, and debt- and climate-driven economic instability, will endanger supply chains of critical raw materials necessary for the net zero transition. Severe economic stress in Africa, driven by debt and the impacts of climate change, would be a humanitarian tragedy – and would also have severe implications for refugee flows arriving on European shores. And the relative decline of OECD funding to Africa means that traditional donors have less say over where investment is concentrated; a significant proportion of investment from the Gulf, for example, goes to fossil fuel projects.

The geopolitical significance of IDA

Given the challenges outlined in the previous section, it is in the direct geopolitical interest of donor countries to make an "offer" to African states that repairs trust, closes the financing gap, and helps to mitigate the growing debt burden. Some attempts have been made to do this, for example through the Just Energy Transition Partnerships and the EU's Global Gateway, but so far these have been insufficiently resourced and have not appreciably improved North–South relations.[21] An ambitious IDA replenishment, however, would be a meaningful first step to repairing the West's partnerships in Africa.

First, **committing resources to IDA would show that the West is engaging seriously with African leaders' proposals**. In a recent op-ed for the *Economist*, the Presidents of Kenya, Ghana and Zambia mentioned IDA21 before any other policy priority.[22] At the World Bank's 2023 Annual Meetings, African finance ministers supported the target of tripling IDA lending by 2030.[23] The IDA21 replenishment conference, which will take place in Nairobi in April, will be an opportunity for African states and other IDA recipient countries to speak with a united voice and demand an ambitious funding replenishment that sets IDA on a pathway to tripling lending by 2030. A strong replenishment would show that traditional donors are listening.

[21] ODI, December 2023, **Taking stock of Just Energy Transition Partnerships**

[22] Nana Akufo-Addo, William Samoei Ruto and Hakainde Hichilema, The Economist, March 2024, **Three presidents on how to make global finance work better for Africa**

[23] Economic Commission for Africa, October, 2023, **African Ministers discuss comprehensive reform proposals for the IMF and the World Bank at the 2023 Annual Meetings**

Second, **IDA can help to repair some of the damage done to North–South trust** by the missed $100bn climate finance target, set in 2009 and due to be met in 2020. While rich countries announced that the figure was reached in 2023, a lack of transparency on the accounting methodology used has cast some doubt over this conclusion and undermined goodwill. By significantly ramping up low-cost funding for sustainable development through IDA, rich countries can show that they are serious about remedying this deficit, helping to rebuild key partnerships in the region.

Third, while only part of the solution, **IDA can help to detoxify the politics of debt**. By increasing the volume of grant and concessional financing available through IDA, donor countries can help to reduce the debt burden for African states thus increasing regional stability and helping to soothe North–South relations. It is estimated that African states will need to spend $2.5 trillion to meet their climate commitments alone by 2030.[24] If this financing is all agreed on the same ruinous terms that African governments have had to borrow money at in recent years, the current debt crisis will become further entrenched.

Finally, **delivering an ambitious and expanded IDA21 is a vital precondition for restoring developing countries' faith in and engagement with the MDB system – and by extension, the wider multilateral system.** IDA expansion is also, crucially, a foundational element of the transformation of the international financial architecture, including but not limited to tripling climate finance across the wider MDB and DFI ecosystem. Failure to achieve an ambitious IDA replenishment will further exacerbate developing countries' distrust of wealthier countries, and this in turn will make delivering transformational change to international financial architecture virtually impossible, further undermining international commitment to the rules-based order.

[24] Cambridge Institute for Sustainability Leadership, January 2024, **Financing Africa's Low Carbon Transition**

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About E3G

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