

The ABCs of the General Capital Increase

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The international financial institutions dramatically increased their lending in 2008–09 to help developing countries cope with the global financial crisis and support economic recovery. Today, these organizations are seeking billions of dollars in new funding. The IMF, which only a few years ago was losing clients and shedding staff, expanded by \$750 billion in 2009. The World Bank and the four regional development banks for Africa, Asia, Europe, and Latin America have asked to increase their capital base by 30 to 200 percent. A general capital increase (GCI) for these development banks is an unusual request. A simultaneous GCI request is a once-in-a-generation occurrence.

The rationale for a cash infusion is to refill the accounts emptied by accelerated disbursements during the financial crisis and to continue to support the demand for funds and expertise from the multilateral institutions as part of a longer-term economic recovery. The GCI would leverage equity capital from shareholders and is intended to stimulate commerce and growth across all regions, including demand for U.S. exports.

What Is the GCI?

A GCI is an increase in contributions from all bank shareholders to enable more lending. The shareholders are member governments, such as the United States, China, and South Africa. Although the headline numbers sound large, only a small portion is actually paid to the banks (called “paid-in capital”). Most of the new capital comes as guarantees from governments (known as “callable capital”). Banks count the callable capital as part of their own resources and lend against it, but can only ask for that money to be paid in an emergency, such as bankruptcy or an immediate need to repay creditors. No multilateral development bank has ever had to draw on its callable capital. Moreover, all maintain closely monitored AAA credit ratings. Periodically, when shareholders agree that future demand for loans is likely to expand (as is the case today), they grow the capital base through a GCI.

How Is a GCI Different from Regular Shareholder Donations?

Each international financial institution has two main lending windows: hard (or commercial rate) for middle-income countries and soft (or concessional rate) for

low-income countries (table 1). The GCI boosts the amount of money that these multilateral banks can borrow on commercial markets and relend through their hard windows, so a GCI mainly increases the funds available to lend to middle-income countries. But a GCI can indirectly raise funds for low-income countries; in the past, the World Bank and others have transferred some of their net income from hard to soft windows.

The concessional lending windows also periodically ask high-income countries for fresh contributions (replenishments), typically on a rolling three-year cycle. These are much

Table 1
The International Financial Institutions

Hard Window	Soft Window
International Bank for Reconstruction and Development (IBRD)	International Development Association (IDA)
African Development Bank (AfDB)	African Development Fund (ADF)
Asian Development Bank (ADB)	Asian Development Fund
Inter-American Development Bank (IDB)	Fund for Special Operations (FSO)
European Bank for Reconstruction and Development (EBRD)	none

more common and entirely separate from the GCI. Coincidentally, the soft loan window of the World Bank (the International Development Association) and the African Development Bank (the African Development Fund) both sought replenishments.

How Much Money Are We Talking About?

The World Bank's hard loan window, the International Bank for Reconstruction and Development (IBRD), is seeking a total capital increase of \$86 billion, with \$5.1 billion in paid-in capital. The African Development Bank is asking for \$63 billion, with \$3.8 billion paid in. See table 2 for more.

How Much Would the United States Have to Pay?

A member's share of the GCI is based on its shareholding in the institution. Shareholding also influences voting weights, which are based on the amount of capital each country has contributed since founding. The United States is the largest shareholder for most of the multilateral development banks (table 3). The amount

the United States needs to pay is its proportional share of the paid-in capital. For the IBRD, the payments for paid-in capital are spread over five years; for the African Development Bank, over eight years. Thus, if shareholders agree to the GCI, the United States will pay approximately \$173 million per year to the World Bank and \$32 million per year to the AfDB.

This may sound like a lot of money during a time of fiscal restraint, but the paid-in capital has tremendous multiplier effects. First, the banks can lend against their much greater callable capital; second, U.S. paid-in capital crowds in other shareholders. Thus, every \$1 the United States contributes to the IBRD as part of a GCI enables at least \$30 in new lending (assuming that the United States has roughly 16 percent of the shares and that the World Bank maintains a 20 percent loan-equity ratio). For the AfDB, every \$1 from the United States means more than \$70 in additional lending.

Why Now?

GCIs generally occur when a region faces a financial crisis or when a regional bank

needs to grow in response to larger client economies. They are fairly unusual. (The last GCI for the AfDB was in 1998; for the IBRD, 1988). The institutions now seeking a GCI cite the financial crisis of 2008–09 as the primary reason for the boost. After accelerating their lending to combat the effects of the crisis, the banks need to replenish their funds or near-term lending will drop significantly. That could slow recovery in countries that have limited access to private capital markets and depend on the multilateral banks for financing. The AfDB is also arguing that the overall growth of member state economies has required it to increase private-sector operations (from less than \$300 million in 2004 to more than \$1.5 billion in 2009). Crowding in private capital helps attract investment in African infrastructure and supports private-sector development on the continent.

Who Decides?

Approving a GCI takes three steps. First, bank management works with shareholders to discuss an increase, which the board then formally endorses. This has already happened in most institutions. Next, the increase must

Table 2
General Capital Increases (GCIs)

Institution	Current Capital Base (\$ billions)	Proposed Increase (%)	Proposed Increase (\$ billions)	Capital Base (\$ billions) After Proposed GCI	Proposed Paid-in Capital (%)	Paid-in Capital (\$ billions)	U.S. Share (\$ millions)
IBRD	190	31%	86.2*	276	6%	5.1	866
AfDB	33	200%	63	96	6%	3.8	259
EBRD	30	50%	15	45	10%	0**	0
IDB	101	70%	70	171	2%	1.7	510
AsDB	55	200%	110	165	4%	4.4	533

* The IBRD request is technically for a GCI of \$58.4bn (based on the existing shareholding structure) and a "selective capital increase" of \$27.8bn, which alters slightly the shareholding weights. For simplicity, we have combined the two here.

** New capital for EBRD will come from issuance of temporary callable capital plus transfer of unallocated reserves, not paid-in.

be approved by the treasuries (or finance ministries) of each member country. The final decision to allocate funds generally involves the legislatures of each country as part of the normal budget process.

In the United States, increases would first be proposed by the U.S. Treasury and then submitted to Congress for approval. The Senate Foreign Relations Committee and the House Financial Services Committee are responsible for authorizing legislation, while the respective appropriations committees are responsible for final funding allocations. Contributions to the Asian

Development Bank GCI were included in the FY2011 budget. Capital increases for the other banks, if agreed, would likely be included in the FY2012 budget. These requests will coincide with, but are separate from, requests for replenishment of the concessional windows.

What Issues Are at Stake?

Requests for a GCI are often accompanied by demands from shareholders for changes at the banks. Congress can choose to add conditions to new money or threaten to withhold capital increases if the banks do not pursue reforms. Senator Richard

Lugar (R-Indiana), ranking member of the Senate Foreign Relations Committee, issued a detailed report in March 2010 outlining recommendations for the banks ahead of GCI requests. Lugar's report lists 50 specific agenda points for the Obama administration, Congress, the IMF, and the multilateral banks to consider. These cover a wide range of issues, including improved monitoring and evaluations processes, information disclosure, and a more robust approach to lowering greenhouse gas emissions.

Table 3

Top Shareholders of the Development Banks

IBRD		AfDB		AsDB		EBRD		IDB	
U.S.	16.83	Nigeria	8.88	Japan	15.57	U.S.	10.10	U.S.	30.03
Japan	8.07	U.S.	6.44	U.S.	15.57	France	8.61	Argentina	10.76
Germany	4.60	Japan	5.49	China	6.43	Germany	8.61	Brazil	10.76
U.K.	4.41	Egypt	5.14	India	6.32	Italy	8.61	Mexico	6.93
France	4.41	South Africa	4.56	Australia	5.77	Japan	8.61	Venezuela	5.76
Canada	2.85	Germany	4.12	Indonesia	5.43	U.K.	8.61	Japan	5.00
China	2.85	Algeria	3.97	Canada	5.22	Russia	4.04	Canada	4.00
India	2.85	Libya	3.84	S. Korea	5.03	Canada	3.44	Chile	2.95
Russia	2.85	Canada	3.75	France	4.32	Spain	3.44	Colombia	2.95
Saudi Arabia	2.85	France	3.75	Malaysia	2.72			France	1.90
								Germany	1.90
								Spain	1.90

* If the GCI is agreed to, these weights will change slightly (e.g., the U.S. will drop to 16.75%, China will rise to 4.64%)
Source: Congressional Research Service

Why Should We Care?

As World War II was ending, President Franklin D. Roosevelt told Congress that a new international fund and bank would illustrate unity of purpose and interests. He argued, “What we need and what they need correspond: more goods produced, more jobs, more trade and a higher standard of living for us all.” This is truer today than ever before. The recent global financial crisis—which originated in the rich world—offered vivid proof of the many links between the interests of high-income countries, emerging-market middle-income countries, and low-income countries. The World Bank and regional development banks played a critical role in helping middle- and low-income countries cope with the crisis, and the accelerated disbursements aided the recovery in high-income countries.

The GCI requests reflect increasing demand and the growing importance of economic stability in developing countries—where five out of six people in the world live—to recovery at home. The United States and other shareholders have a common interest to ensure that international institutions are both well managed and well funded to support developing countries’ recovery and growth. Doing so will help to promote prosperity and opportunity in the United States and the global community at large.



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The ABCs of the IFIs: Understanding the U.S. Role in Shaping Effective International Financial Institutions for the 21st Century

The International Financial Institutions (IFIs) are major sources of financial and technical support for developing countries and play a critical role in promoting economic development and global stability. As the interests of high-income and developing countries become more linked, the role of the IFIs will become even more prominent.

The United States and other nations have a common interest in ensuring that the IFIs are well managed and well funded. This CGD brief is one of six on the financial and governance issues facing the IFIs. Please email publications@cgdev.org to receive any of the others:

- The World Bank
- The International Monetary Fund
- The International Finance Corporation
- The Regional Development Banks
- Leadership Selection at the IFIs
- The ABCs of the General Capital Increase