Appendix: Calculations in Table 1

The 'stocks' section of the table takes the stock of donor resources tied up in IBRD capital, IFC capital, and donor Trust Funds held at the Bank and values the flow of income that could be earned from investing that capital in some other near-riskless asset. (Trust Funds are assets held in trust by the Bank but controlled by outside donors, not used for loans or credits but used to grant money for activities both inside and outside the Bank.) We estimate that this flow of opportunity costs is approximately US$1.9 billion per year excluding Trust Funds. The 'flows' section adds in the flow-cost of partner grants to replenish IDA, annualized over the last 12 years.

We generally follow the method of Meltzer (2000) and Gurría and Volcker (2001) to value the Bank's cost. Like them, we ignore the cost of MIGA which is relatively small (its current loss reserve, greatly exceeding plausible losses on claims, is roughly US$0.4 billion). We differ in four substantial ways:

1) We include the cost of IFC capital. We include Trust Fund disbursements. The previous studies do not.

2) They use an interest rate of 7%, reflecting the 20-year Constant Maturity Treasury rate at the time they were writing; the same rate at the time of this writing is under 3%.

3) Meltzer (2000: Tables 3-3, 3-5) value the risk cost of the Bank's callable capital as if there is a 4.6% probability in any given year that *all* callable capital will be both called and forever lost. Gurría and Volcker (2001) argue that this is exorbitant, given the Bank's conservative lending practices and the fact that no IBRD capital has ever been called—much less lost—in the Bank's 70-year history, a history that has included multiple major financial crises in client countries. A more realistic worst-case scenario might be that a financial catastrophe necessitate writing off a third of the Bank's currently outstanding loans ($152bn), which would absorb the current $42bn of paid-in capital and retained earnings (the risk of whose loss is already accounted for) and would require $9bn more in called capital. Given loan maturities of 8–30 years this $9bn might be spread out over 20 years, thus $0.5bn per year in losses from called capital. This is a rough and speculative calculation, but suggests that a reasonable consideration of called-capital risk would not greatly alter the foregoing opportunity cost estimates. This conclusion is robust to considering past debt relief for World Bank clients: IDA debt forgiven through the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI) was financed through IDA replenishments and is thus included in the *flow* portion of this table.

4) Meltzer (2000) values the cost of IDA funds as the annual opportunity cost of the *stock* of all money ever paid into IDA since it was created. We model partner grants to IDA credits as a form of consumption, a current purchase of utility value from poverty reduction. The cost of these is simply the current flow of resources to replenish IDA. For the same reason, the current-period opportunity cost of a consumer's expenditure on food is simply that expenditure, not the interest that could have been earned on the cumulative amount she spent on food since birth.