

# CRS Report for Congress

Received through the CRS Web

## Multilateral Development Banks: Basic Background

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### Summary

As a group, the multilateral development banks (MDBs) are the largest source of development assistance to middle- and low-income developing countries. This report discusses the organization and operations of the MDBs. It shows the share of their lending by region and by economic sector. The report is based on preliminary data for 2000. (The fiscal years for the regional banks ended on December 31.) It uses data for 1999 (to mid-2000 for the World Bank) in several sections. It will be updated when newer data become available.

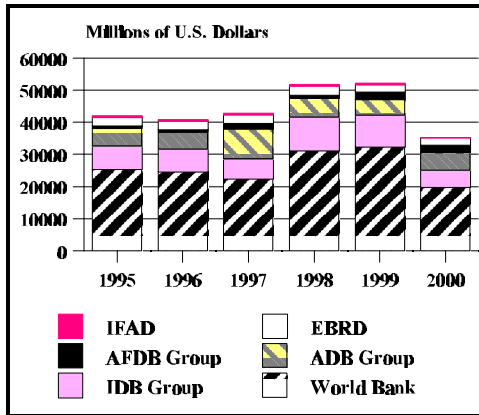
### Overview

The United States is a member of five multilateral development banks (MDBs) as well as two similar agencies. The five MDBs include the World Bank and four regional banks – the Asian Development Bank, African Development Bank (AFDB), European Bank for Reconstruction and Development (EBRD), and Inter-American Development Bank (IDB). The two other organizations are the North American Development Bank (NADB) and the International Fund for Agricultural Development (IFAD). The latter differ somewhat from the standard MDB model, though they perform similar functions.

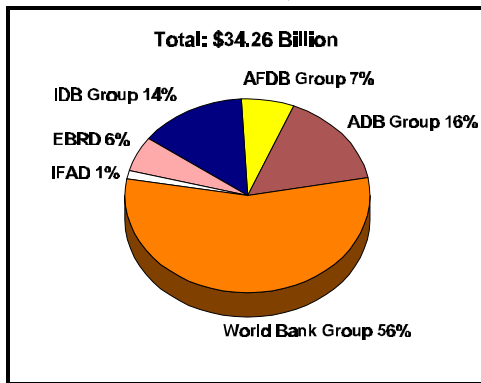
This report provides information about the structure and operations of the MDBs. Current issues and Congressional action concerning MDBs are discussed in CRS Issue Brief IB86008, *Multilateral Development Banks: Issues for the 107<sup>th</sup> Congress*. Information on the procedures governing U.S. involvement can be found in CRS Report RS20791, *Multilateral Development Banks: Procedures for U.S. Participation*. Information concerning U.S. contributions can be found in CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions, FY1990-2001*.

The MDBs are the largest single source of finance for development projects and economic reform in developing countries. In 2000, they made loans, equity investments, grants and guarantees totaling \$34.26 billion. As Figure 1 shows, this was down prior

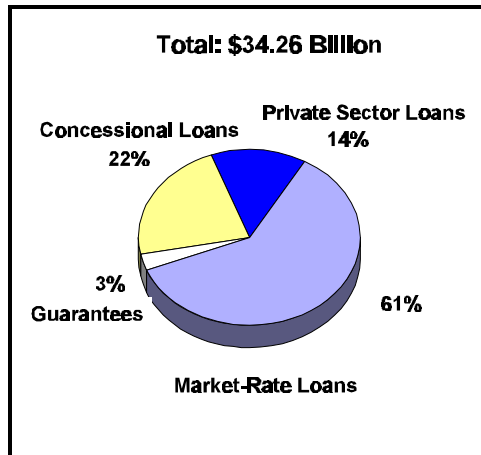
**Figure 1. Annual MDB Assistance, 1995-2000**



**Figure 2. Assistance from Each MDB, 2000**



**Figure 3. Forms of MDB Assistance, 2000**



years. The World Bank and IDB reduced their lending in 2000 after several years of heavy lending in response to the Asian financial crisis and its global aftermath.

The World Bank is the largest MDB. As Figure 2 indicates, it provided more than half of all MDB assistance in 2000. It also provided more than 62% of all MDB concessional aid that year. (See Table 1, page 6.) Concessional loans accounted for about 22% of all MDB assistance. (See Figure 3.) Near-market or commercial rate loans, guarantees or equity investments comprised the other 78%. MDB near-market rate loans accounted for 61% of the total. The private sector facilities provided the other 17%.

## Organization

**Structure.** The MDBs are autonomous international agencies that finance development programs in low- and middle-income countries using borrowed money or funds contributed by donor countries. The International Monetary Fund is a similar body. Since 1979, it has lent mainly to developing countries. Its operations affect economic conditions in its borrower countries. However, The IMF is a monetary institution and it does not fund development projects. It is not included in this report.

Run by their own management and staffed by international civil servants, the MDBs are supervised by Boards of Governors and Boards of Executive Directors representing their member country governments. Voting shares are weighted on the basis of countries' contributions. The governing boards meet annually. Each country has its own governor. The executive boards are smaller bodies – 22 members in the case of the World Bank, fewer for some MDBs. They meet weekly to consider MDB loan and policy proposals and oversee bank activities. (The IFAD board meets thrice annually.) The

governors have delegated much of their power to the EDs. For example, the executive boards can hire (or fire) the president of their bank. The MDBs do not use money contributed by their donors to fund their operating costs. Rather, these are paid for with income earned from the MDBs' reserves or from their loans. (See CRS Report RS20413, *IMF and World Bank: U.S. Contributions and Agency Budgets.*)

**History** . The IBRD<sup>1</sup> was the first MDB. It was founded soon after World War Two to help finance post-war reconstruction and to promote growth in developing areas. It lends mainly to middle-income countries. In 1960, at the suggestion of the U.S., IDA was created to make low-cost loans to the poorest countries. IBRD and IDA loans require government repayment guarantees. The IFC was created in 1955 to make non-guaranteed loans to and equity investments in private firms in developing countries. MIGA was created in 1988 to encourage investment in developing countries through insurance and guarantees protecting foreign investors against non-economic risk.

The IDB was created in 1959 in response to a strong desire by Latin American countries for a bank that would be attentive to their needs. The AFDB was created in 1964 and was (until 1983) an African-only institution. The AFDF was created in the early 1970s to provide concessional loans using contributions from non-regional countries. The ADB was created in 1966 to promote regional cooperation. The EBRD was established in 1991 to promote market-oriented reform in the former communist countries of Eastern Europe and the former USSR. IFAD was created in the late 1970s to fight hunger and promote food security. The NADB is a joint Mexican-U.S. agency created by NAFTA to address border environmental issues and trade-related community adjustment problems.

Except for the EBRD and NADB, all MDBs have market-rate and concessional loans “windows.” IFAD provides both types of loans through its main account. Most also provide some of the more specialized forms of assistance. The World Bank and IDB have separate affiliates which provide assistance (on commercial terms) to private sector firms. The ADB and EBRD make private sector loans through their market-rate loan windows. MIGA is the only institution focusing on investment insurance and guarantees, but several of the banks also make loan guarantees through their main loan windows.

**MDB Members and Stockholders.** The World Bank is now nearly a universal institution. Only Cuba, North Korea, Brunei, Taiwan, and some micro-states do not belong. Countries must be members of the IMF to join the World Bank; they need not be IMF members to join the regional banks or IFAD. Taiwan is a member of the ADB. North Korea has applied to join the ADB. Neither belongs to the IMF. Cuba and North Korea are members of IFAD (as are most other UN member countries.) Countries must be members of an MDB to borrow from it.

**MDB Sector/Regional Activities.** The MDBs finance a variety of activities. In the past two decades, the World Bank has lent about 25% of its IBRD and IDA funds annually for economy-wide (“structural adjustment”) or sector-wide (“sector adjustment”) reform programs. The AFDB and IDB now also make adjustment loans. These provide balance of payments support to countries, conditioned on their governments’ agreement to undertake major policy reforms. Most MDB loans fund development projects or programs, however. The project cycle involved in the preparation of these loans may take

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<sup>1</sup> Other abbreviations used in this report include four World Bank affiliates: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). They also include the regional banks’ concessional facilities: the Asian Development Fund (ADF), the African Development Fund (AFDF), the IDB’s Fund for Special Operations (FSO), and the Inter-American Investment Corporation, its private sector affiliate.

several years before a proposal is ready for presentation to an MDB executive board. After a loan is approved, full disbursement of the proceeds may take up to eight years or more. The MDBs do not release funds to the borrower immediately. Rather, they disburse funds only as the work progresses and approved invoices from suppliers are received. MDB loans generally cover about one-third of a project's cost. Goods and services purchased with MDB loans are subject to open international competitive bidding.

Initially, the MDBs lent mainly to finance the construction of infrastructure or directly productive activities (e.g., industry or commercial agriculture.) In the 1970s and 1980s, they expanded the share of their aid targeted for poverty alleviation or economic policy reform. This trend has continued. In the past decade, the World Bank halved the share of its loans going for infrastructure, oil and mining while it more than doubled the share going for social programs. With U.S. encouragement, it increased 10-fold the share allocated for population, health, or nutrition programs. The IDB in particular has emulated this trend. During the recent international financial crisis, while the amount of MDB adjustment lending increased, the share going to fund social protection programs (which protect vulnerable people and continue social services) also increased.

**Figure 4. MDB Assistance to Economic Sectors, 1999**

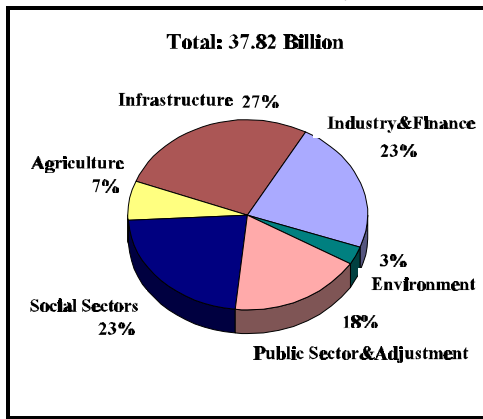


Figure 4 shows the sectoral pattern of MDB assistance in 1999 (mid-2000 for the World Bank). Overall, the MDBs channeled half of their funds into loans, guarantees and equity investments for infrastructure, industry, and finance. The social sectors received 23% of all MDB funds. Substantial amounts (18%) also went to finance reform of governmental institutions (improvements in the effectiveness of court systems or customs procedures, for instance) or for economic policy reform. About 7% went for agricultural projects, a major decline from the shares in earlier decades. Many rural poverty projects are included in the social category. The rapid urbanization of many developing countries has brought more MDB emphasis on non-agricultural issues. About 3% of MDB assistance went to fund direct environmental projects. This does not include the environmental aspect of projects in other sectors. Table 2 shows the amount which each MDB channeled into each sector that year.

**Figure 5. Regions Receiving MDB Assistance, 1999**

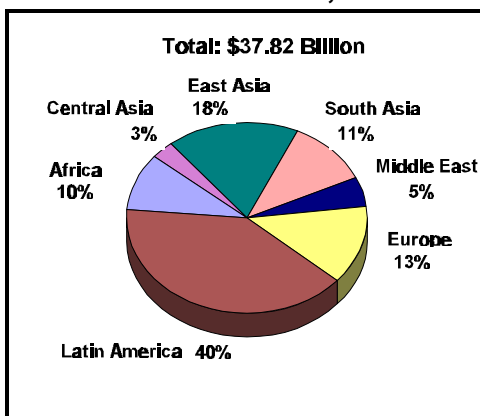


Figure 5 shows the global distribution of MDB assistance in 1999. Latin America was the largest recipient of MDB aid. South Asia and East Asia, regions which together contain over one-half the world's population, received 11% and 18%, respectively. Sub-Saharan Africa received the most MDB concessional aid, with 41% of the total. (See also Table 1.) South Asia was the next largest recipient, with 26%. Sub-Saharan Africa received \$4.41 per capita for the year. South Asia received \$1.34 per capita. The

per capita GNP of South Asia is lower (\$440) than that for Africa (\$500.) East Asia got about 14% of all MDB concessional aid, while Latin America – a region with a much smaller population and higher per capita annual income – received 11% of the total.

**Proposals for Restructuring.** There have been proposals, in recent years, that the World Bank should be essentially closed and its functions transferred to the regional banks. In Asia and Latin America, the regional banks now lend more to regional countries than does the World Bank. However, three issues of concern have been noted. First, there is no regional bank for the Middle East. The countries of the region seem unready to cooperate in mutual development. Second, the African Bank has serious administrative and operational weaknesses, though it has made improvements in recent years. (See CRS Report RS20329, *African Development Bank and Fund*.) Most analysts agree that many years will elapse before it is ready to supplant the World Bank in Africa. Third, the MDBs differ considerably in their loan emphases. Table 2 shows that the World Bank lent 23% of its funds for social programs. The IDB lent 38% for these activities, while the ADB lent 18% and the AFDB allocated only 13%. Most experts agree that it is much easier for donor countries to work within a global institution to expand its worldwide emphasis on particular activities than it would be for them to seek coordinated action and comparable priorities in the separate regional banks.

## MDB Finances

**Loan Terms.** The MDBs lend three-quarters of their funds on market-based terms, using money borrowed commercially in world capital markets. These are usually variable rate loans, charging about one-half percent more than an MDB pays on the average to borrow funds. Generally, depending on the project, loans are repayable over 12 to 25 years. The banks can borrow at advantageous terms (slightly more than the U.S. Government pays to borrow funds) because they have the financial backing of the capital subscribed by their member countries. Part of this (often 10% or less) is paid-in capital. The rest is callable, payable if (as a last resort) an MDB is bankrupt and needs funds to pay its creditors. There has never been a call on callable capital. Except for the AFDB, most MDBs have substantial reserves. MDB concessional loans have long repayment periods – up to 40 years – and very low interest costs. The MDB concessional loan programs are funded with money contributed by their more prosperous member countries.

**Debt Owed to MDBs.** Cumulatively through 1999 (2000 for the World Bank), the MDBs have made loan commitments totaling \$780 billion. Some \$360 billion has been repaid. Of the rest, \$315 billion was currently outstanding; another \$105 billion had been approved but not yet disbursed. About 0.7% of the former, some \$3.1 billion, was overdue. Countries that had suffered massive civil conflict – the former Yugoslavia, the former Zaire, Liberia, and Somalia – owed 60% (\$2.8 billion). Much of the rest was owed by countries – Syria, Iraq, and Myanmar – having major disputes with the international system. Except for loans to private creditors, the MDBs do not reschedule loans or participate in debt restructuring plans. If countries fall 6 months behind on payments, the MDBs stop disbursing on existing loans or reviewing new proposals. Recently, in response to the debt crisis in Heavily Indebted Poor Countries (HIPC), the World Bank is writing off debt owed by 20 HIPC countries. It is also raising funds to reimburse some regional banks so they can write-off some virtually unpayable debts owed to them. The

AFDB and some sub-regional banks (in Central America and East Africa, for example) cannot forgive these debts without putting their own solvency at risk.

**Table 1. Amounts Lent by Each MDB to Specific Regions <sup>2</sup>**

	Total	Africa	Latin America	Europe	Middle East	Central Asia	S Asia	East Asia
<b>IBRD</b>	10,919	98	3,898	2,564	760	169	935	2,495
<b>IDA</b>	4,358	2,061	165	144	160	165	1,178	484
<b>IFC</b>	3,505	359	1,238	679	228	87	399	515
<b>ADB</b>	3,908						1,040	2,859
<b>ADF</b>	1,071					102	563	406
<b>AFDB</b>	1,059	392			667			
<b>AFDF</b>	1,233	1,404			10			
<b>EBRD</b>	2,186			1,649		537		
<b>IDB</b>	9,802		9,802					
<b>IFAD</b>	433	198	76		54		51	53
<b>Total</b>	37,821	3,678	15,179	5,036	1,879	1,060	4,176	6,813
<b>(Concessional)</b>	6,979	2,829	793	144	224	267	1,778	944

**Table 2. Amounts Lent by Each MDB for Specific Economic Sectors <sup>2</sup>**

		Industry & Finance	Infrastructure	Agriculture	Social Sectors	Public Sector	Environment	Other
<b>IBRD</b>	10,919	1,887	3,343	768	1,901	2,566	454	
<b>IDA</b>	4,358	384	976	357	1,598	983	60	
<b>IFC</b>	3,505	2,589	817		165			
<b>ADB</b>	3,908	380	1,494	300	689	570	475	
<b>ADF</b>	1,071	96	530	142	207	25	70	
<b>AFDB</b>	1,059	251	277	254	6	272		
<b>AFDF</b>	580		141	205	216	18		
<b>EBRD</b>	2,186	1,333	853					
<b>IDB</b>	9,802	1,662	1,800	121	3,757	2,344	82	37
<b>IFAD</b>	433			389	44			
<b>Total</b>	37,821	8,582	10,231	2,536	8,517	6,776	1,142	37
<b>(Concessional)</b>	6,979	480	1,647	1,093	2,602	1,026	131	

<sup>2</sup> In Tables 1 and 2, figures are in millions of U.S. dollars. Middle East includes North Africa. Infrastructure includes water and sewerage and urban development. Social lending includes disaster assistance. Public sector includes adjustment lending and policy reform.