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Economic Transition in Latin American and Post-Communist Countries: A Comparison of Multilateral Development Banks[1]

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This article examines regional development banks and their relationship with the World Bank. Specifically, the article analyzes the roles of the Inter-American Development Bank (IDB) and the European Bank for Reconstruction and Development (EBRD), and the factors that have influenced the creation of these international financial institutions. Most of the literature examines regional development banking practices and development strategies as if all regional banks were the same. However, the missions of the IDB and the EBRD are quite distinct. While the IDB primarily provides social sector loans to nation-states, the EBRD primarily provides private sector loans for finance and business development. Given that Latin America and the former Soviet Union share many of the same economic, political and social problems, it is surprising that these institutions are so different. What accounts for the different missions of these regional banks? We find that the influence of borrowing and non-borrowing member states in the creation of these banks can help explain some of the differences between the IDB and the EBRD.

KEY WORDS: inter-American development bank; European bank for reconstruction and development; international financial institutions; regional development banks.

While much has been written about the origins, the lending policies and the economic and political impact of the World Bank (IBRD)[1] and the International Monetary Fund (IMF), there has been much less attention focused on regional financial institutions. Since the 1960s, a number of regional development banks (RDBs) have been established throughout the world.

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The Inter-American Development Bank (IDB) was established in 1959 and its mission and banking structure has served as a model for several of the RDBs that have followed including the African Development Bank (AfDB), Asian Development Bank (AsDB) and the Caribbean Development Bank (CDB).[2]

Although the IBRD provides more total development loans in the world than any other international financial institution (IFI), RDBs can actually provide more finance than the IBRD for their specific regions and for specific countries. Many smaller countries, particularly in Latin America, have come to rely on their RDB for a large percentage of their financial assistance, which has outpaced the assistance provided by the IBRD. It is through these RDB that countries that do not command the attention of the IBRD or IMF get the needed international financing to engage in development projects and strengthen their economy.

While there are differences among all RDBs, the recently formed European Bank for Reconstruction and Development (EBRD) diverges considerably from the model of the first RDB, the IDB. The fact that the IDB and the EBRD are so distinct is somewhat surprising given that both banks serve regions that have undergone dramatic economic and political change. In this article we seek to understand and account for the differences between the IBD and the EBRD.

What is striking about the literature on RDBs is how little attention has been focused on their origins and lending practices. Aside from the series published by Lynne Rienner[3] in the mid-1990s, there has been scant attention paid to RDBs. The literature that has emerged tends to focus either on very technical issues concerning RDB agreements and finance (Head 1996; Zecchini 1995), more contemporary concerns over banking and transparency (Nelson 2001) or historical accounts of the creation of RDBs (Dell 1972; Menkveld 1991). Generally, the historical works have tended to focus on single case studies rather than explore similarities and differences among RDBs.[4] This article examines the origins, the lending policies and RDB relationship with the IBRD from a comparative perspective focusing on the IDB and the EBRD. We believe that by comparing these two IFIs, we will have a greater appreciation for the diversity and the similarity of RDBs. In addition, it will help us understand how not only economic but also political considerations affect the creation of these financing institutions.

ORIGINS, MEMBERSHIP AND STRUCTURE

Institutions such as the IDB and the EBRD are not only a result of bargaining among member states but also reflect the concerns of the international system. While the IDB was created during the height of the Cold War, the EBRD has often been referred to as the first "post-cold war international institution" (Easton and Rorer 1991, 527) and as such reflects particular concerns that were thrust upon European and Western countries immediately after the collapse of the Berlin Wall in November 1989. The international system in 1990 and 1991 was still in flux following the collapse of communism in East Europe, reunification of Germany and continuing presence of the Soviet Union until August 1991. It is not surprising, therefore, that the early debates over the EBRD reflect the ambiguity that was present in the international system. What is striking is that while the international system was quite different when the IDB was created in 1959, the concerns and influence of the U. S. was similar in both cases.

We argue that the differences in the external environment (specifically the Cold War) in which the institutions were created help explain the differences in membership, structure and lending policies. Cold War politics were an important aspect of the initiation of both the IDB (regarding Cuba) and the EBRD (the dismantling of East European communist regimes). Steven Weber (1994) argues that the Cold War, U.S. hegemony and the relationship of state and various IGOs should be viewed within the context of an institutional environment in which Cold War politics is one feature. While international institutions and states were primary actors involved in the creation of the IDB and the EBRD, we find that there are stark differences in the relative importance of certain actors and their international concerns that had a pronounced influence on the design of these institutions. This section explains some of the principle differences between these two institutions including the debate over the conception of the RDB, structure and membership composition of the institution.

IDB Origins

The idea of a Latin American RDB pre-dates the Cold War period, going back to the nineteenth century. At the First Inter-American Conference held in 1889–1890, participants discussed how to strengthen banking links between the United States and Latin American countries (Dell 1972). However, the U.S. Congress opposed the creation of an institution that it viewed as establishing "spheres of influence"[5] and would involve governments in activities that were considered more naturally within the scope of the private banking community. During the next sixty years, this dominant economic and worldview continued to influence any discussion concerning the creation of a Latin American RDB (Tussie 1995).

The end of World War II brought about the creation of several IFIs to deal with global economic issues, including the IMF and the IBRD. In Latin America, the expectation was that these institutions would provide financial support to the region. However, it soon became evident in the discussions at the Bretton Woods Conference that the initial focus of these institutions would be the reconstruction of Europe. Starting in 1948, Latin American governments, the ultimate beneficiaries of a new financial institution, began pressing their case for a lending agency that would specialize in providing loans and increasing the flow of financial resources to the region. A 1954 report by the Economic Commission for Latin America (ECLA) pointed out that from 1950 to 1953 the annual net flow of resources into Latin America had averaged around $422 million; however, only $79 million had been made available by the IBRD and other IFIs for development projects. The group of ECLA experts argued for the creation of a RDB. Even though they acknowledged that the activities envisioned for this new RDB (a focus on industrial, agricultural and mining credits) could be provided by existing IFIs, they argued that these IFIs would have to change their structure and priorities since they had not previously been engaged in these lending activities.[6] In addition, these experts believed that one of the problems with IFIs was their lack of specialization and knowledge of local conditions. In addition, they felt that this new RDB would provide additional personnel to process loans and provide technical assistance in the preparation of projects that was lacking in other IFIs, and increase the potential for regional development and integration through regional project financing (Mikesell 1955).

At a ministerial level conference in Brazil at the end of 1954, Latin American countries passed a resolution (with the abstention of the U.S. and Peru) calling on economists and members of ECLA to make a specific proposal for the creation of the bank to the Organization of American States. The "Santiago Draft" of 1955 envisioned the new RDB's primary objective the promotion of economic development of the member countries by investing in the creation or expansion of enterprises, operations and services whether public, private or mixed. Although the U.S. was not involved in the discussions leading to the Santiago Draft, Latin American countries assigned one third of the subscribed capital of the new Bank to the U.S. with the remainder provided by Latin American countries. Quotas would be determined based on IMF subscriptions. The voting structure would resemble that of the IMF and the IBRD, but no member would hold more that one-third of the total voting power.

Interestingly, when the Santiago Draft was circulated for consideration and comment, only nine countries in principle approved the Draft—two gave conditional support,[7] and three (including the U.S.) conveyed opposition. Seven countries did not even reply. However, the U.S. reversed its position in 1958 when a visit by Vice President Richard Nixon to the region raised awareness of the political, social and economic unrest in the region. Finally, Cold War concerns of the potential expansion of communism into an unstable Latin America led the U.S. to support the idea of closer economic ties through a bank.[8] In many Latin American countries, Vice President Nixon was confronted with demonstrations motivated by the perceived neglect of the U.S. government and the poor economic conditions in region. Juscelino Kubitschek, President of Brazil, called on President Dwight Eisenhower to jointly re-evaluate the Pan American relationship with the aim of strengthening the ties between the countries on the continent. President Eisenhower responded to this call and sent Secretary of State John Foster Dulles to negotiate an agreement.

The negotiating committee began work in January 1959, completing the proposal in April (Scheman 1997). The agreement entered into force on 30 December 1959. The Agreement establishing the IDB states that "the purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively" (*Agreement Establishing the Inter American Development Bank* 1959, Article I.1). There were no political demands for democratization in the region, as we shall see in the EBRD's Agreement. Cold War concerns seemed to have tilted the balance towards an emphasis in fighting the potential expansion of communism into the region. In addition, even though loans could be provided both to public and private entities without government guarantees, the IDB has largely focused on public financing, and thus supporting governmental entities in Latin America. The first meeting of the Board of Governors was held in February 1960 when the president and the first Board of Executive Directors were elected. The Bank officially began operating in October 1960 and made its first loan in February 1961.

EBRD Origins

The actual origins of the EBRD pre-date the fall of the Berlin Wall; thus, it is the last cold war institution designed for a post-cold war environment. Unlike in the Latin American case, lenders took the initiative in advocating for what eventually became the EBRD in a speech delivered by President François Mitterrand to the European Parliament on 25 October 1989. Mitterrand argued that "Poland, Hungary, the Soviet Union . . . need to be helped. Why not set up a Bank for Europe, which, like the European Investment Bank, would finance major projects and have on its Board of Directors the

12 European countries" (1989, 79). In November, the French proposed a "Bank for Europe" that would coordinate European Union (EU)[9] project development in East Europe. While the British were especially hostile to the notion of an East European RDB and the West Germans were at best ambivalent, it was agreed at the European Council's December Strasbourg meeting to begin negotiations over the creation of the newly named EBRD. As part of the framework of the negotiations, two principles were agreed to at the Strasbourg meeting. First, the EBRD would complement rather than supplant the IMF and the IBRD. Mitterrand's special advisor on these negotiations, Jacques Attali, had proposed a "maximalist" conception of the EBRD in which the Bank would be the lead development agency in East Europe (Weber 1994). However, it was clear at Strasbourg that several countries, including future member the U.S., would never agree to create an East European RDB that would serve as an alternative to existing IFIs. The second principle agreed to was to open the negotiations and membership to all G-24 countries including the U.S. and Japan. While the Bank was to retain a "European character," countries such as Britain insisted that the U.S. be invited to the negotiations.

As an indication of French influence in the process, the negotiations began in Paris in January 1990, and Attali was named the chair of the first constitutive conference. All twelve EU countries, ten other European countries, ten non-European countries,[10] eight recipient countries and a representative from the EU and the European Investment Bank (EIB) attended the meetings. The most fundamental issue discussed at the conference concerned the nature of EBRD lending. In the Latin American case, IDB lending focused on the public sector; however, the U.S. and Britain maintained that the EBRD should only provide financial support to the private sector. The U.S. was concerned that any financial assistance to the state would ultimately "amount to subsiding failing socialism" (Menkveld 1991, 61). While countries such as France did not object to private sector lending, they wanted the EBRD to have the flexibility to lend to the public sector. The Soviet delegation in particular was concerned with the emphasis on the private sector given that a law on property had not yet been passed and therefore private property was still technically illegal in the country.

At the March 1990 constitutive conference, the U.S. and France agreed to a provision in which at least 60% of EBRD financial assistance would be directed to the private sector with the remaining 40% or less available to the public sector. The state sector would later be defined in the EBRD Agreement as that part of the economy that includes "national and local Governments, their agencies, and enterprises owned or controlled by any of them" (*Agreement Establishing the European Bank for Reconstruction and Development* 1990, Article 11.3 [iiia]). Therefore unlike the IDB, the

EBRD primarily funds non-state institutions and enterprises and thus is more similar to the International Financial Corporation (IFC)[11] than other RDBs.

In addition to debating lending policies, several participants to the constitutive conferences insisted that the EBRD's Agreement include explicit language linking economic reform to democracy and human rights as communism was collapsing. The Soviet delegation was concerned about linking access to finance with a commitment to multiparty democracy, but in the end, Article 1 of the Agreement clearly states that the purpose of the Bank is to promote private initiative in those countries "committed to and applying the principles of multiparty democracy, pluralism and market economics" (*Agreement Establishing the European Bank for Reconstruction and Development* 1990, Article 1). While Birch (1988, 257) argues that RDBs come into existence in order to "free development finance from the appearance of political considerations," the EBRD not only sought to promote a specific form of economic policy-making but also a specific form of governance. The Agreement provides that the Board of Directors is responsible for overseeing the actual implementation of democratic and economic policies (Menkveld 1991).

One of the unusual features of the EBRD negotiations was the relatively quick period of time that it took the contracting parties to sign the Bank's Agreement. Both informal and formal negotiations took less than five months and by March 1991, the Agreement came into effect and the EBRD inauguration in London occurred the following month. For Latin America, one could argue that the IDB was fifty years in the making, and Cold War concerns provided the final impetus for its creation. There are a few reasons why the EBRD negotiations occurred so quickly. First, events in Eastern Europe dictated the pace of negotiations. President Mitterrand's initial speech occurred the month before the fall of the Berlin Wall. Between that speech and the inauguration of the Bank, almost every Eastern European country had had elections and many governments were pursuing policies of privatization. Second, the statutes and working experience of the IBRD and RDBs, including the IDB, meant that negotiators were aware of the issues involved in creating this new RDB.

IDB Structure

The IDB was, until the founding of the EBRD, the only regional bank whose headquarters was not in a BMC. The IDB's headquarters are located in Washington, D.C. The Board of Governors is composed of one governor and an alternate governor appointed by each of the forty-six member countries. Governors are usually ministers of finance, presidents of central banks or other officials. The Board holds an annual meeting to review the Bank's operations and to make major policy decisions; however, it delegates many of its powers to the Board of Executive Directors.

The IDB's fourteen-member Board of Executive Directors is responsible for conducting the operations of the Bank. Board members are elected or appointed to three-year terms by the Board of Governors. The executive directors for the U.S. and Canada represent their own countries, but all other executive directors represent groups of countries. Split voting is not allowed within the different groups, so each group must reach a compromise and put forth a single vote by its designated director. The Board is in charge of establishing the institution's operational policies, approving project proposals submitted by the president of the Bank, determining interest rates for Bank loans, authorizing borrowings in the capital markets and approving the Bank's administrative budget.

The president of the IDB, who is elected by the Board of Governors to a five-year term, conducts the day-to-day business of the institution along with the executive vice-president. The president of the Bank always comes from a BMC; thus he/she is a Latin American. The president presides over meetings of the Board of Executive Directors but has no vote except to break a tie. The executive vice-president has always been a U.S. citizen. Since its founding, the Bank's leadership has been very stable. There have only been three presidents: Felipe Herrera (1960–1970), Antonio Ortiz Mena (1970–1987) and Enrique Iglesias (1988–present).

One of the issues that Latin American countries paid special attention to was the staffing of the Bank. Based on the experience of the Marshall Plan, there was a sense that local participation in the management of a development institution would provide countries a greater stake in the success of the institution, with a clearer understanding of regional and country-specific needs. Therefore, there is an IDB country office in every BMC to channel technical assistance and enhance project supervision.

The resources provided by the member countries to finance the Bank's operation are structured into two separate windows, the ordinary capital resources (hard window) and the FSO (soft window). Ordinary capital resources include capital paid by the member countries, funds borrowed in capital markets and loan repayments (Tussie 1995). The FSO depends exclusively on government contributions, except for some income derived from liquid investments and interest payments (Culpeper 1994). In addition to the resources available through the IDB, BMCs have access to assistance from the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF) which form part of the IDB Group.[12]

EBRD Structure

The EBRD and the IBD share a similar structure (Shihata 1990). Like the IDB, the EBRD's headquarters are located in a NBMC (Britain), and the Bank has field offices in every BMC. In addition, both banks have a three-tier structure (president and staff, Board of Governors and Board of Directors). For both banks, the Board of Directors is responsible for conducting day-to-day operations. In the case of the EBRD, there are twenty-three directors. Britain, France, Italy, Germany, Japan, the U.S. and the EU each have their own director while the rest of the members are grouped into constituencies. One indication of the relative influence of NBMCs and BMCs involves the selection of the president. In a NBMC-dominated institution such as the EBRD, the president comes from a European donor country.[13]

Initially, the structure of the EBRD included two separate banking divisions based on the dual mandate of both private and public financing. The merchant banking division was headed by the EBRD's senior vice president[14] and was in charge of loans to the private sector. The development banking division, while technically equal to the merchant side, was involved in more traditional development-based (i.e., public sector) loans. These two different banking divisions reflected the early choice to allocate a minimum of 60% of financing to the private sector. By the mid-1990s, it became apparent that this structure encouraged competition between the two banking divisions and placed the development division at a disadvantage. Therefore, the decision was taken to merge these two divisions into a single banking division with seven policy and country regional sub-divisions.[15]

IDB Membership

One of the reasons for the creation of the IDB in 1959 was to strengthen the Pan American alliance, and therefore initially only members of the Organization of American States (OAS) were eligible for membership. IDB member states were divided into borrowing member countries (BMCs) and non-borrowing member countries (NBMCs). Initially, the U.S. was the sole NBMC. Later, an amendment to the Agreement in 1972 allowed Canada, which was not even a member of the OAS, to become a NBMC of the IDB. Later, nineteen other countries joined the Bank as NBMCs in the 1970s and 1980s. One of the main reasons for the expansion of NBMCs has been the stipulation that goods and services for IDB projects can only be provided by businesses from IDB member countries. These contracts number in the thousands each year and provide a strong incentive for countries to join the IDB (Tussie 1995). Today the Bank has forty-six members.[16]

The IDB provides financial assistance to BMCs from Latin America and the Caribbean. In these countries, a number of entities can borrow directly from the Bank, including national, provincial, state and municipal governments, autonomous public institutions and civil society organizations that have a government guarantee. Interestingly, four independent sub-regional organizations which are not members of the IDB and do not having voting powers (the Andean Development Corporation, the Central American Bank for Economic Integration, the River Plate Basin Financial Development Fund and the Caribbean Development Bank) are also eligible to borrow from the Bank for projects in their member countries.

Voting rights are determined by the number of shares in ordinary capital stock of the Bank held by a member country. The IDB structure was designed to give BMCs more voting power than NMBCs in order to offset the power that industrialized countries have in other IFIs established at Bretton Woods. Even though NBMCs dominate other IFIs, the IDB was created by the impetus of Latin American countries, which were able to take advantage on Cold War concerns to propose a favorable voting power structure. In 1994, the Articles of Agreement were amended to stipulate that the voting power of the BMCs could not fall below 50.0005%. In 2002, the U.S. held 30% of the votes while other NBMCs held just under 20% of the votes. Among the BMCs, Argentina and Brazil each hold approximately 11% of the voting power (*Inter-American Development Bank Annual Report* 2001).

Until the Seventh Replenishment[17] in 1989, decisions by the Board of Executive Directors on ordinary capital loans required a simple majority vote. Decisions concerning concessional loans from the Fund for Special Operations (FSO) required a 2/3 majority. However, management in the Bank avoided the submission of loan applications that did not have U.S. support. During the Seventh Replenishment negotiations, the U.S. sought a change in the Articles of Agreement to secure an effective veto power over the operations of the Bank. The new voting structure allows a single director to delay the consideration of a loan for one month, and after this period two or more directors can delay a loan an additional two months. Therefore, the U.S. director can delay the consideration of a loan for up to three months with the support of one or more additional directors.

EBRD Membership

By May 1990, the forty participants[18] to the constitutive conferences had agreed to the basic principles of the EBRD including the division of voting power. The decision to designate the Soviet Union as a recipient country was a hotly debated issue. All EU member states, including Britain, agreed that the Soviet Union should be invited to participate. However, because the Soviet Union did not embrace the core political and economic goals of the EBRD, the U.S. urged that the Soviets be excluded or at least only given observer status with no lending rights (Bronstone 1999). A compromise solution was found in which the Soviet Union was granted full membership; however, to placate the Bush administration, the Soviets were only allowed to borrow up to the amount it paid into the Bank in hard currency.[19] The other membership dispute involved the inclusion of the EIB as a shareholder. The U.S. was concerned that the membership of a pro-public sector institution would "send the wrong signals to the political and business leaders of the CEECs" (Bronstone 1999, 32). The EIB was eventually admitted as a full member, and therefore the EBRD is the only RDB in which IGOs can become full members.

As with other RDBs and the IBRD, the number of shares determines voting rights. Because the EBRD was to be a "European" RDB, the French felt that European countries had to have majority voting power. Those countries that would benefit from the loans, unlike in Latin America, would have a minority vote in the bank. Thus, EU member states, the EU and the EIB jointly control 51% of the voting shares. The U.S. is the single largest shareholder with 10% followed by Japan with 8.5%. While many votes only require a simple majority, decisions regarding the use of loans by BMCs require a super-majority of 85%. Therefore the U.S. and Japan have a veto over the distribution of financing among BMCs.[20] Even with the addition of several new members after the break-up of the Soviet Union, donor or creditor countries still control majority voting in the EBRD. Post-Cold War concerns, as well as the European initiative for creating the bank help account for the NBMC control of the EBRD. And, while the EBRD initially included a much more diverse NBMC profile than the IDB, NBMCs did not join the EBRD in order to benefit from special membership procurement policies as in the IDB. The EBRD does not permit contracts and tenders to include a preference for member businesses.

LENDING POLICIES AND PRACTICE

In this section, we examine how the charters and the mandates of the IDB and the EBRD have influenced their lending practices. While there are lending differences among all the RDBs (particularly in the case of the EBRD), these differences have narrowed over time. It is important to recall that with the broad mandate, the IDB has focused on public financing. On the other hand, the EBRD Agreement provides for a maximum of 40% for public financing, and it allows private sector assistance in excess of the 60%.

IDB Lending Policies

During its first three decades of existence, the IDB concentrated on project lending. In the 1960s, 40% of IDB lending went to the agriculture, industry and mining sectors. Infrastructure (e.g., electric power, transportation and communications) received close to 30%. Social development projects involving water supply and sewerage systems, urban development and housing and education accounted for nearly 25% (Tussie 1995). By the 1970s, the IDB also began making program loans which targeted not only specific projects but also encouraged the creation of institutions to implement projects and deliver services. At the Fifth Replenishment of 1981, the Bank established a target of 50% lending to programs that would benefit low-income groups. However during the debt crisis of the 1980s, the Bank began to provide balance-of-payments assistance (so-called policy lending normally associated with the IMF). The IDB has also become the major source of technical assistance for the region.

In order to guide access to resources from the Bank, the BMCs are grouped into four categories, known as A, B, C and D[21] according to their level of development.[22] The IDB's largest borrowers have been the largest economies in the region. Approximately 70% of the Bank's disbursed loans have gone to Brazil, Mexico, Argentina, Colombia, Chile and Peru which together account for about 85% of the region's GDP. However on a per capita basis, the Bank has lent more to the smaller and poorer BMCs.

The Bank's impact as a development institution has been more significant for the smaller and poorer BMCs. These BMCs have been more dependent on official development assistance and have had greater manpower constraints than larger BMCs. They have generally needed more guidance from the IBD and have absorbed relatively larger amounts of lending and staff time (Griffith-Jones et al 1994). Changes in lending policies have also allowed favorable treatment for smaller BMCs in the relative share of funds granted by the Bank for the total cost of a project. The share of total costs financed by the Bank is 50% for Group A countries, 60% for Group B countries, 70% for Group C countries and 80% for Group D countries. In addition, the share of total costs that would be funded by the IDB can be supplemented by an additional 10% for projects that provide at least 50% of their benefits to low income groups.

Annual lending has grown dramatically from $294 million approved in 1961 to almost $6.5 billion in 2001 (this amount reached a high of approximately $10 billion in 1998). From its inception until 31 December 2001, the Bank has approved 1,533 loans and six guarantees from its ordinary capital resources. Loans have reached over $120 billion (See Table 1). Approximately $102 billion were loans from the ordinary capital resources, $15 billion from the FSO and almost $3 billion for technical cooperation projects.

Table 1. IDB Annual Lending 1961–2001

Year	Total amount in US$ billion
1961–1971	4.8
1972–1981	15.2
1982–1991	31.8
1992	6.1
1993	6.0
1994	5.3
1995	7.2
1996	6.7
1997	6.0
1998	10.0
1999	9.4
2000	5.2
2001	6.5
Total	120.2

Source: IBD, *Annual Reports* and *Information Statements*, various years.

Approximately $600 million of the loans were without a government guarantee (*Inter American Development Bank Information Statement* March 2002). The IDB has become the most important lender to Latin American countries, surpassing the financial assistance provided by the IBRD to the region.

EBRD Lending Policies

During its first two and a half years of operation, the EBRD was repeatedly criticized for the slow disbursement of its loans and the rather modest amount of lending that occurred. For example during the 1991–1992 period, the EBRD entered into twenty-nine projects committing only ECU 626 million. In 1993, the number of projects did increase substantially to sixty-six, and the amount that was committed was over ECU 1.5 billion. However, this sum was a small amount of the actual in-paid capital available to the Bank. Another concern about the early lending practices of the EBRD was the substantial amount of capital that went to the Visegrád countries (Wyles 1994). From 1991–1993, 46% of ninety-five signed projects were with the Czech Republic, Hungary and Poland (see Table 2). However, these countries (like the largest Latin American countries) had the most developed private sector in which the EBRD could invest. The EBRD funds up to 35% of the total project costs for either a Greenfield project[23] or an established company.

Under President Jacques de Larosière, the number of projects and committed capital increased greatly. After his reorganization of the Bank, the

Table 2. EBRD Signed Projects, 1991–1999

Year	% Visegrád countries[a]	%Loan[b]	Total amount in ECU or EUR million[c]
1991–1992[d]	59	76	625.8
1993	44	56	1,561.5
1994	24	57	1,902.0
1995	19	56	2,009.6
1996	16	57	2,459.6
1997	21	50	2,427.0
1998	13	39	2,373.4
1999	12	48	2,157.6

Source: Using data from the EBRD, the first two columns are calculated by the authors. The last column is the amount provided by the EBRD. All figures are for signed projects during that year.
[a] This includes the Czech Republic, Hungary and Poland.
[b] We only include those projects that are strictly financed as loans in this column. Financing that was a combination of loans and shares were excluded.
[c] Starting in 1999, the EBRD reported Bank funds in EUR.
[d] The EBRD reported signed projects for the combined years.

processing and dispersal of loans was streamlined and there was greater attention paid to finding partners in small and medium-sized enterprises (SMEs). For example between 1998 and 1999, 300 projects were signed and the Bank committed ECU 4.5 billion. By 1998, 80% of total financing went to the private sector compared to 76% in 1997. Of the 300 projects approved between 1998 and 1999, approximately 12% were signed with the Czech Republic, Hungary and Poland showing that while these three countries still enjoyed substantial access to capital, the Bank's country portfolio had substantially changed. For example during the period of 1998–1999, approximately 13% of signed projects were with Russia.

The other change in the EBRD's lending reflected an increasing ability to target SMEs and other private sector businesses for investment. During its early years, the majority of EBRD financing was in the form of loans. However since 1996, the share of projects financed strictly through loans has declined (see Table 2). In 2000, several projects were financed as guarantees or the issuing of senior debt. In addition, the number of SME and micro and small enterprise (MSE) loans has dramatically increased. Loan figures for 1999 indicate that the Bank made 14,000 SME and MSE loans. By 2000, the number of SME and MSE loans had increased to over 50,000. Unlike other RDBs, including the IBD, the EBRD does not have a soft window.[24]

RELATIONS WITH OTHER IFIs

All RDBs are concerned with establishing a division of labor between themselves and other IFIs, particularly the IBRD. RDBs do not want to be seen as duplicating the tasks of the IBRD and thus rendering themselves superfluous. On the other hand, RDBs have increasingly worked with the IBRD to co-finance projects. Cooperation between RDBs and the IBRD is often promoted in order to ensure efficiency in projects. The question is how do RDBs balance the concern between duplicating efforts and promoting cooperation. This section examines the relationship between RDBs and the IBRD and other IFIs, noting areas of cooperation and competition.

IDB Relations with the IBRD

The IDB Articles of Agreement specify that "the Bank shall cooperate as far as possible with national and international institutions and with private sources supplying investment capital" (*Agreement Establishing the Inter American Development Bank* 1959, Section 2.b). However, it does not specify how this cooperation will take place. In the beginning of the IDB's operation, the relationship with the IBRD was more competitive than cooperative. To help diffuse this competition, informal sectoral agreements were worked out to guide operations. For example in the area of education, the IDB focused on loans in higher education and the IBRD focused on secondary education loans. An initial division of labor also emerged whereby the IBRD concentrated on large-scale loans, such as those required for infrastructure projects, while the IDB focused on smaller projects. However by the end of the 1960s, this division had eroded as the IBRD entered into social and poverty reduction projects, and the IDB began large-scale funding of infrastructure projects.

Coordination between the IDB and the IBRD increased after the Seventh Replenishment of 1989. Prior to 1990, both institutions had only about three to four joint operations per year. After the Seventh Replenishment, this number substantially increased. Coordination, however, has taken place without a formal memorandum of understanding (since both institutions are headquartered in Washington D.C.). The IDB has had less leverage in the larger BMCs which have access to alternative financial sources. In these countries, the IBD has accepted the focus of the IMF and the IBRD on policy programs involving exchange rate, trade policy and other price issues (Iglesias 1992). The IDB attempts to avoid providing conflicting advice or stipulating conflicting conditions in these areas policy areas. However, relations with the IBRD tend to be more competitive regarding smaller BMCs. The IDB lends to smaller BMCs at a rate two to three times that of the IBRD. For many of these smaller borrowers, the Bank is the main IFI. Programming differences between the IDB and IBRD are more likely to occur in these cases.

The IDB's relationship with the IBRD is unique among all RDBs because the IDB's lending capacity is actually greater than that of the IBRD.

Table 3. Comparison of IBRD and IDB Loan Commitments (US$ billions) 1984–2001

Year	IBRD loans	IDB loans
1984	3.0	3.3
1985	3.7	3.0
1986	4.8	3.0
1987	5.2	2.3
1988	5.3	1.6
1989	5.8	2.6
1990	5.8	3.8
1991	5.2	5.3
1992	6.1	6.1
1993	5.9	6.0
1994	4.7	5.3
1995	6.1	7.2
1996	4.4	6.7
1997	4.6	6.0
1998	6.0	10.0
1999	7.7	9.4
2000	4.1	5.2
2001	5.3	6.5

Source: Data provided by the IBRD and the IDB.

Table 3 shows how since 1991 the IDB has surpassed the IBRD in lending to the region. While the IDB has provided an average of $7.7 billion annually to the region since 1991, the IBRD has made available approximately only $5.5 billion in capital resources to Latin American countries. Perhaps because of its leadership in the region, the IDB co-finances more projects with the IBRD than any other RDB. In the 1996–2000 period, co-financing ranged between $1.9 billion and $3.5 billion annually (*World Bank Annual Report* 2001).

EBRD Relations With the IBRD and Other IFIs

Because of its emphasis on the private sector, the EBRD was not as concerned about duplicating IBRD efforts. Indeed, in the EBRD's Agreement, Article 2.2 states that the EBRD will work in close cooperation with the IMF, the IBRD and the IFC. In July 1990, an IBRD official noted that because of the EBRD's emphasis on the private sector, the IBRD would focus its lending in the public and the social sectors (Fidler 1990).[25] For example in 1994, finance and business investments were approximately 40% of the Bank's total sector activity compared to only 7.5% for the IBRD (Culpeper 1997, 117). Therefore, the EBRD was not concerned about competition from the IBRD, but it was concerned about establishing a separate mandate from the IFC. One of the means by which the EBRD has attempted to distinguish

Table 4. Comparison of IBRD, EBRD and IFC Loan Commitments (US$ millions) 1993–2000

Year	IBRD loans[a]	EBRD loans[b]	IFC
1993	3,844	1,561	—
1994	3,726	1,902	—
1995	4,498	2,009	—
1996	4,229	2,459	988
1997	5,058	2,427	788
1998	5,225	2,373	1,083
1999	5,288	2,157	997
2000	3,045	2,673	682

Source: Data provided by the IBRD, the EBRD and the IFC.
[a]This amount includes loans made by the International Development Agency as well as the IBRD.
[b]Amounts were given in ECUs and Euros and were converted into dollars.

itself from the IFC is to promote finance for SMEs which is typically not the focus of the IFC (Weber 1994). Table 4 reports the loan commitments for the IBRD, the EBRD and the IFC from 1993–2000. Although the data is incomplete, it shows that during this period the IBRD was much more active in providing loans to East Europe and the former Soviet Union. In fact during this period, IBRD loans were almost double that of the EBRD. In terms of the IFC, EBRD loan commitments have been substantially greater. While the EBRD is not the lead IFI in the region (compared to the IDB in Latin America), it is the lead IFI in private sector loans.

Besides the competition between RDBs and the IBRD, there is also the issue of competition between the various RDBs. The EBRD and the Asian Development Bank (AsDB) include several of the same member states (principally from Central Asia as well as the Caucuses). In order to coordinate lending activity in Central Asia, the two banks entered into a formal agreement in which the EBRD would be considered the lead IFI in the private and financial sectors, and the AsDB would be the lead institution in social sectors (Culpeper 1997).

CONCLUSIONS

This article has examined the differences, and in many cases, the similarities between the IDB and the EBRD. Given the importance of these institutions in their respective regions, particularly the IDB, it is surprising how little attention has been paid to these institutions specifically and the role of RDBs generally. Most of the literature on IFIs has tended to focus on the

IBRD and IMF as the leading financial institutions in the world. However, RDBs are increasingly playing important roles in the respective regions.

Even though their structures are similar, the mandates of IDB and EBRD are quite different, leading to distinct lending pattern and lending policies. While the IDB focuses on social development and poverty reduction loans (broadly defined), the EBRD's focus has been on private sector development. The EBRD's focus on the private sector not only differentiates it from the IDB but also the IBRD and even to a certain extent the IFC. This gives it a niche to fill in the area of IFIs.

The influence of BMCs and NBMCs in the creation of these banks can help explain some of the differences between the IDB and the EBRD. Culpeper (1997) argues that there is a distinction between two different types of RDBs: those controlled by creditors (e.g., the EBRD) and those controlled by borrowers (e.g., the IDB). In the case of Latin America, when BMCs take the initiative in creating a RDB, it would appear that their control over the bank's policies is more pronounced. Even though the United States was a critical actor in the negotiations for the creation of the IDB, BMCs were able to retain voting control over the bank, as well as designate its president. In the case of the EBRD, the initiative in the creation of this IFI came from NBMCs, particularly France with the active participation of the United States, which ultimately lead to an IFI controlled and presided over by NBMCs.

The international environment in which the discussions took place also provides a picture of how politics play an important role in developing IFIs. Concerns over the spread of communism in Latin America in the 1950s leads to a bank where political consideration are not as important as is the case with the EBRD in the 1990s. The collapse of the Soviet Union leads NBMCs to pay special attention to democratization and citizen's rights. These concerns were not expressed in the 1950s, where the discussions of an IFI for Latin America were not constrained by whether democracy and human rights were being respected in the region. Preventing the spread of communism was perhaps a much more important factor.

ENDNOTES

1. The IBRD is one of the five organizations of the World Bank Group.
2. Technically, the CDB is a sub-regional RDB with ties to the IDB.
3. The series entitled "The Multilateral Development Banks" produced five volumes devoted to RDBs.
4. Culpeper's (1997) volume in the Rienner series stands out as an exceptionally broad-based comparative analysis of RDBs.
5. There was a concern that the Europeans would view this as an opportunity to create their own spheres of influence, which the U.S. opposed.
6. The IMF and the IBRD had been in existence for less than ten years and were still developing ways in which to accomplish their missions.

7. These countries made suggestions to modify certain sections of the Santiago Draft.
8. Cuba's revolution was in 1959.
9. While EBRD negotiations and operations began under the European Community, for purposes of simplicity, we have decided to use the European Union throughout the article.
10. The list of non-European countries includes developing countries such as Egypt and Morocco. Menkveld argues that the reason why these developing countries would provide financial assistance to East Europe was in order to garner preferential treatment for contractors and suppliers. For a complete list of participants, see Menkveld 1991, 98–100.
11. The IFC was founded in 1956 as part of the World Bank Group and provides financial assistance to the private sector. Although the IFC coordinates its activities with other World Bank Group institutions, it operates independently and is financed independently.
12. The IIC and the MIF were created to provide financing for private sector projects without government guarantees.
13. Since 1991, the EBRD has had four presidents. One of the presidents, Horst Köhler, resigned in order to assume the position of managing director of the IMF.
14. As Upton (2000) notes, the vice president of the EBRD is nominated by the U.S. and has always been an American.
15. President Jacques de Larosière (1993–1998) instituted this change to also strengthen the EBRD's focus on individual countries.
16. The members of the IDB are Argentina, Austria, Bahamas, Barbados, Belgium, Belize, Bolivia, Brazil, Britain, Canada, Chile, Colombia, Costa Rica, Croatia, Denmark, Dominican Republic, Ecuador, El Salvador, Finland, France, Germany, Guatemala, Guyana, Haiti, Honduras, Israel, Italy, Jamaica, Japan, Mexico, Netherlands, Nicaragua, Norway, Panama, Paraguay, Peru, Portugal, Slovenia, Spain, Suriname, Sweden, Switzerland, Trinidad and Tobago, the U.S., Uruguay and Venezuela.
17. Prior to 1994, a replenishment took place every four years to increase the capital stock of the Bank. The last replenishment took place in 1994, when the Bank reached a capital stock of $101 billion which allowed it to make available $7 billion in loans. Since then, there has not been an additional replenishment.
18. Since 1990, the number of shareholders has increased to sixty-two.
19. Article 8.4 of the Agreement provides that member states may "voluntarily" limit their access to finance over a three-year period. The request for such a limitation has to be included as a protocol in the Agreement. So after making the request, the capital subscription of the Soviet Union was ECU 600 million. There is a 30–70% division between in-paid and callable capital which meant that the Soviet Union only had access to ECU 180 million (Menkveld 1991). The 30% paid-in subscription is the highest amount of any RDB.
20. Even though the U.S. is the single largest shareholder, Upton (2000) argues that the U.S. influence in the EBRD is considerably less than in the IDB.
21. Group A is comprised of Argentina, Brazil, Mexico and Venezuela. Group B is comprised of Chile, Colombia and Peru. Group C consists of the Bahamas, Barbados, Costa Rica, Jamaica, Trinidad and Tobago and Uruguay. Group D is composed of the poorest, least-developed BMCs: Belize, Bolivia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, Panama, Paraguay and Surinam.
22. Nine indicators were used as measurements of development: GDP, GDP per capita, population, annual rate of population growth, share of investment in GDP, rate of growth of per capita GDP, life expectancy at birth, infant mortality rates and literacy rates.
23. A Greenfield project must be a completely new business or enterprise.
24. A soft window provides credits or concessional loans below the prevailing market rate and is considered different than a hard window's market rate loans. Fundamentally, these windows reflect the differences between a development and banking emphasis.
25. As part of the increasing overlap between lending activities, the Bush administration was able to convince the IBRD to provide more lending to the private sector, see Bradsher (1991).

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