

Regional Development Banks

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The regional development banks (RDBs) are multilateral financial institutions that provide financial and technical assistance for development in low- and middle-income countries within their regions.¹ Finance is allocated through low-interest loans and grants for a range of development sectors such as health and education, infrastructure, public administration, financial and private-sector development, agriculture, and environmental and natural resource management. The term RDB usually refers to four institutions:

- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Development Bank (IDB)

While each RDB has its own independent legal and operational status, they all share a similar mandate and maintain a high level of cooperation.

Membership

The RDBs are owned by member governments, including both regional and nonregional countries. The United States is a member of all of the RDBs.

Each member government is a shareholder of the institution. A country's voting shares and level of board representation are based roughly on the size of its economy and its financial contributions to the institution. The United States is the single largest shareholder in the IDB and the EBRD. At the ADB, the United States is tied with Japan for the largest financial commitment. At the AfDB, the United States

is the second largest shareholder after Nigeria. Among regional members, China and India are large contributors to the ADB; Egypt and South Africa are large contributors to the AfDB; Argentina, Brazil, and Venezuela are large contributors to the IDB; and Russia is a large contributor to the EBRD (see table 1). As a top shareholder, the United States holds a single seat on the board of each RDB.

Governance

The RDBs have similar internal organizational structures. Run by their own management and staffed by international civil servants, each RDB is supervised by a

Table 1
Top Shareholders of the RDBs

	AfDB		ADB		EDBR		IDB	
1	Nigeria	8.88	Japan	15.57	U.S.	10.10	U.S.	30.03
2	U.S.	6.44	U.S.	15.57	France	8.61	Argentina	10.76
3	Japan	5.49	China	6.43	Germany	8.61	Brazil	10.76
4	Egypt	5.14	India	6.32	Italy	8.61	Mexico	6.93
5	South Africa	4.56	Australia	5.77	Japan	8.61	Venezuela	5.76

Source: Congressional Research Service

board of governors, a board of executive directors, and a president. The board of governors is the highest decision-making body and consists of one governor for each member country, generally a member country's secretary of the treasury or minister of finance. The governors delegate day-to-day authority over operational

policy, lending, and other business matters to the board of executive directors who work on-site at the institution's headquarters. The board of executive directors in each institution is smaller than the board of governors, ranging in size from 7 to 20 members, depending on the institution. The presidents are responsible

for the overall management of the institution and serves as the chair of the board of directors.

Table 2
Overview of the RDBs

	Year Founded	Total Members	Regional Members	Staff	Headquarters
AfDB	1964	77	53	1,500	Abidjan, Côte d'Ivoire*
ADB	1966	67	48	2,800	Manila, Philippines
IDB	1959	48	26	2,000	Washington, D.C.
EBRD	1991	61	29	1,541	London, UK

*Temporarily relocated in Tunis, Tunisia
Source: RDB annual reports

Table 3
RDB Lending Windows

Hard Windows	Soft Windows
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

Table 4
RDB Annual Commitments (FY2009)

RDB	Nonconcessional (billions USD)	Concessional (billions USD)
AfDB	8.8	3.8
ADB	11	3.1
IDB	15.3	0.2
EBRD	11.3	n/a

Where Do the RDBs operate?

The RDBs are headquartered in their respective region and vary in size (see table 2).

- The **ADB** is headquartered in Manila, Philippines, with 29 country offices and representative offices in Tokyo, Frankfurt, and Washington, D.C.
- The **AfDB** is headquartered in Abidjan, Côte d'Ivoire; it is temporarily relocated in Tunis, Tunisia, because of political unrest in Côte d'Ivoire.
- The **EBRD** is headquartered in London and has county offices in 34 regional member countries.
- The **IDB** is headquartered in Washington, D.C., and has country offices in all 26 of its regional member countries, as well as in Paris and Tokyo.

Lending

Most of the RDBs have two main funds, often called hard and soft lending windows (see table 3). The hard lending windows provide financial assistance, typically in the form of loans, on market-based terms. Nonconcessional assistance is, depending on the MDB, extended to middle-income governments, some creditworthy low-income governments, and private firms in developing countries. The soft lending windows provide grants and highly concessional loans (with low interest rates and long repayment periods) to the region's poorest countries. Most loans are interest-free and have a maturity of 25 to 40 years.

The amount of lending the RDBs provides depends on demand and varies widely from year to year (see table 4).

Lending across all of the RDBs spiked to record levels after the 2008 financial crisis as the banks dramatically increased nonconcessional lending to developing

countries. This played a critical role in helping middle- and low-income countries cope with the crisis (see figure 1).

Where Do the RDBs Get Their Funding?

The RDBs' hard and soft lending windows obtain their funding in different ways. The hard lending windows borrow on international capital markets at attractive rates, taking advantage of their AAA credit rating, and relend the money to developing countries. This lending model passes along most of the benefits of the low rates but raises the price slightly to cover the RDBs' operating expenses and generate funds used for other purposes, including grants to the poorer countries.

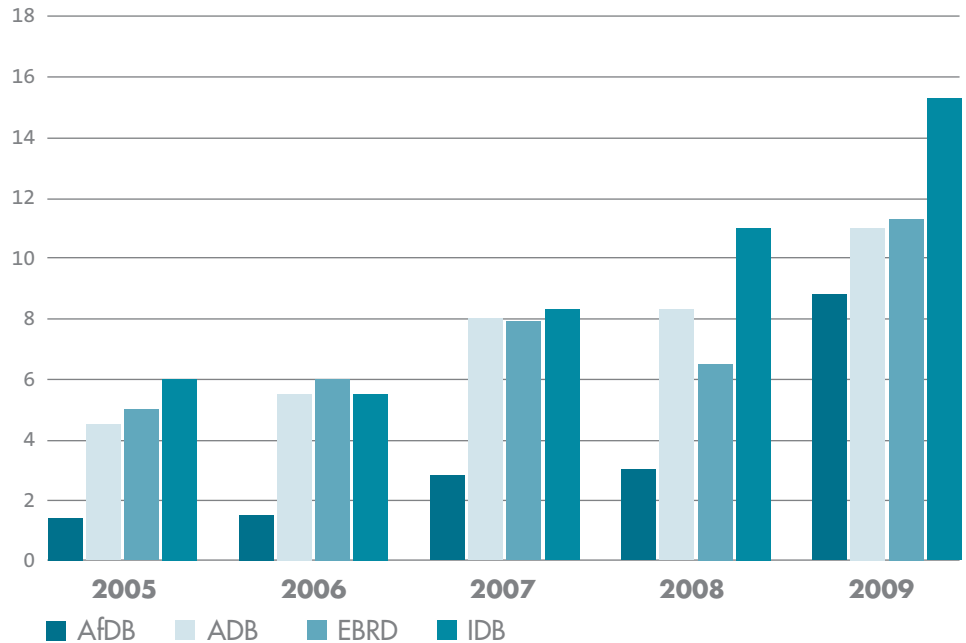
The soft lending windows are financed directly by contributions from richer donor countries and are replenished every three to five years. Some of the RDBs transfer a portion of their surplus net income from their nonconcessional lending to help fund their concessional aid programs.

The 2008 Financial Crisis and Beyond

The RDBs will face significant budgetary considerations following the 2008–09 financial crises. During this time, the RDBs dramatically increased nonconcessional lending to developing countries. This played a critical role in helping middle- and low-income countries cope with the crisis and aided the recovery in high-income countries. The accelerated disbursements depleted capital reserves, and in 2010 the RDBs requested additional funding from member countries in order to sustain lending to middle-income countries.²

The request for a general capital increase for the IBRD is unusual and results from the RDBs' role in helping to maintain economic stability and support growth in developing countries during the crisis.

Figure 1
Annual RDB Commitments, FY2005–09
(nonconcessional loans, billions USD)



Issues for Congress

Funding: Congressional legislation is required for U.S. financial contributions to the RDBs. Replenishments of the concessional lending windows occur regularly; a capital increase for the nonconcessional lending windows happens more infrequently. The Obama administration requested U.S. participation in a capital increase for the RDBs in the FY2012 budget, largely because RDB lending increased dramatically following the global financial crisis.

Oversight: Congress exercises oversight of U.S. participation in the RDBs through legislative mandates, which can influence certain institutional policies and withhold funding unless certain institutional reforms are met.

U.S. Commercial Interests: The RDBs diminish the impact of global disruptions in emerging countries which helps to protect, maintain, and even expand U.S. business activity abroad in times of crisis. Given U.S. commercial interests in the RDBs, Congress should continue to monitor how companies bid on RDB projects.

Effectiveness: The effectiveness of the RDBs in spurring economic development and reform in developing countries is debated, particularly issues related to transparency, efficiency, control and leveraging of funds.

Read more about issues for congress in CRS Report R41170, "Multilateral Development Banks: Overview and Issues for Congress."

This action was undertaken at the request of the international community, as expressed in the declarations issued at the 2009 G-20 London Summit. The United States and other nations have a common interest in ensuring that the RDBs are both well managed and well funded.

Endnotes

Jenny Ottenhoff is a policy outreach associate at the Center for Global Development. She benefitted from insights and feedback from Lawrence MacDonald and Jessica Brinton during the drafting of this brief, which draws on previously published work, including RDB annual reports.

¹ The regional development banks are part of a broader group of multilateral development banks, which includes the World Bank.

² Read more about the general capital increases in the companion brief “The ABCs of the General Capital Increase.”



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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