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**Shopping for Development:
Multilateral Lending, Shareholder Composition and Borrower Preferences**

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ABSTRACT

This paper proposes two theoretical considerations regarding multilateral development banks. The first is that MDB activities are increasingly driven by the growing economic strength of many developing countries. The second is that categorizing MDBs according to the balance of power among shareholders helps explain why countries might prefer one or another MDB. We compare three different MDBs operating in Latin America—one dominated by non-borrowers (World Bank), another controlled by borrowing countries (Andean Development Corporation, CAF), and a third more evenly split between borrowers and non-borrowers (Inter-American Development Bank, IADB). Qualitative and statistical analysis suggests that demand factors play an important role in MDB lending.

Key Words: World Bank, Inter-American Development Bank, Latin America,
Multilateral, Development, International Organization

1. INTRODUCTION

In academic literature as well as general public perception, the World Bank and other multilateral development banks (MDBs) have long been viewed as domineering organizations able to impose themselves upon developing countries. Since the mid-1990s, however, a number of emerging market governments have found themselves in strong financial positions, due to, among other factors, the huge rise in global private capital flows, high foreign exchange income from rising commodity prices and growing export industries, and much stronger fiscal accounts. Whether these trends represent short-term developments or a more fundamental shift in the world economy remains to be seen. But there is little doubt that the demand for multilateral lending from many major developing countries is undergoing a change. Economies such as China, India, Indonesia, Brazil, Mexico and Peru—which together accounted for 44% of the World Bank’s loan portfolio in 2009—now have stable fiscal accounts, low public debt levels, high international reserves and well-established access to international capital markets.

Little attention has been paid in academic literature to how this sea change in economic conditions for many developing countries might impact MDB lending. Is lending on the decline for some MDBs, and if so, which MDBs are facing the most serious drop in lending? What factors might lead a country to prefer borrowing from one MDB versus another, when it has a choice? Academic

research is largely silent on these issues, despite their far-reaching implications for the activities of MDBs and on international development more broadly. The literature instead has focused on how MDB lending decisions are influenced by geopolitical considerations of powerful shareholders, by bureaucratic pathologies within MDBs or by changing ideologies on development. All of these approaches implicitly assume that lending fluctuates only due to decisions taken by the MDBs or their principal shareholders, while the preferences of borrowing countries are not relevant. This may have been justifiable in the 1980s, but is unlikely to be realistic in the current global context.

In addition, existing research on MDBs focuses mainly on the World Bank, with only an incipient (though fast-growing) body of research on other MDBs such as the Inter-American Development Bank and the Asian Development Bank (see for example Gutner, 2002; Neumayer, 2003; Kilby, 2006 and 2011; Bland and Kilby, 2012; and Babb, 2009, among others). More than 20 MDBs exist, and some are larger lenders to their particular market than the World Bank. Do different MDBs mediate the interests of their country shareholders in different ways? How might the various shareholding arrangements among different MDBs impact their operations? Do borrowing countries prefer working with some MDBs over others in different situations, and if so, why?

This paper utilizes a new theoretical framework suggesting that differences in lending volumes by various MDBs may be partly explained by the balance of power between borrowing and non-borrowing shareholders. Qualitative research indicates that this balance of power directly shapes the terms of the loans—i.e.,

financial cost, bureaucratic procedures and safeguard requirements. Depending on economic conditions, borrowing countries will put different weights on these factors. We thus hypothesize that lending varies systematically as a function of both: prevailing economic conditions among borrowers, and the type of shareholding arrangement in each MDB. The three types of MDB shareholder arrangements considered are: (1) domination by wealthy non-borrowing countries (at the World Bank); (2) stronger but still subordinate influence of borrowing countries (at the Inter-American Development Bank, IADB); and (3) control by borrowing countries (at the Andean Development Corporation, CAF). The operational characteristics of each MDB derived from these shareholder arrangements, we suggest, strongly condition the preferences of countries to borrow from them in different economic circumstances.

The statistical part of the paper examines lending by each of the three MDBs for a common set of borrowing countries in Latin America during the period 1991 to 2010. We make use of a multivariate, large N analysis in a panel framework with observations across the different borrowers and over time. Based on seemingly unrelated regression estimation (SURE), we compare the coefficient estimates of the different MDB regressions to test our hypotheses on systematic differences between the three cases. The comparison of only three cases cannot prove a causal relationship between MDB governance structures, borrower preferences and lending, nor can it fully disentangle supply from demand side factors. However, it allows us to test whether the lending patterns observed are consistent with what our theoretical discussion leads us to expect. The aim is to demonstrate

that a demand-oriented interpretation of MDB lending is at least as plausible as the supply-side analysis prevalent in the current literature, an interpretation that is further substantiated by qualitative evidence. This points the way to further research to build a more comprehensive and realistic model of MDB activities for the current global economic context.

The paper is organized as follows. Section 2 formulates the empirical puzzle to be addressed, and reviews relevant scholarship on MDBs. Section 3 presents qualitative research on MDB governance structures and loan characteristics, which Section 4 then builds on to derive testable hypotheses. Section 5 provides the econometric analysis of lending commitments by the World Bank, IADB and CAF in five Latin American countries. Section 6 concludes.

2. EMPIRICAL PUZZLE AND THEORETICAL FRAMEWORK

Before moving on to analyze what might be driving variation in lending patterns by different MDBs over time, it is useful to first consider whether this is something worth explaining at all. It could be that lending remains relatively constant or that it moves in ways that are relatively predictable and easily explained. As can be seen in the figure below, this is clearly not the case, at least for lending by the three MDBs discussed here in five Latin American countries. Annual lending commitments fluctuate widely year by year for each of the MDBs.

(FIGURE 1 HERE)

How is one to explain these patterns? Why since the early 1990s has the regional IADB lent consistently more than the global World Bank? Why has lending by the relatively little-known CAF grown so dramatically, to the point where it lent more than either the World Bank or IADB in the last decade? The existing academic literature posits a wide range of explanations for MDB lending patterns, including realist considerations of power politics and donor interest (Thacker, 1999; Harrigan et al., 2006; Dreher et al., 2009a, 2009b and 2010; Babb, 2009; and Kilby, 2006 and 2011, among many others), a rationalist focus on incentives among main actors in MDB activities (Mosley et al., 1995; Gutner, 2005; Vaubel, 2006), or more sociology-based constructivist interpretations of norms and staff self-image (Barnett and Finnemore, 1999 and 2004; Babb, 2003; Woods, 2006; and Weaver, 2008).

However, it is notable how little existing research considers the point of view of the borrower when attempting to understand MDB lending. The majority of research on MDBs presupposes that all countries eligible to borrow from an MDB will always want to do so, and the important question to be asked is what factors might lead an MDB to award a loan to a country or not. That is, they focus almost entirely on the “supply side” of MDB activities. The analytical approach of the studies cited above is to focus on the decision-making process of the MDB in granting a loan—either among its shareholders, within its staff, or between the two—with the implicit assumption that countries will always want the loans.

In light of the spectacular growth of many large developing countries in recent years as well as the explosion of international capital flows, explanations of MDB lending that ignore demand seems unlikely to be realistic now. Countries that have been major borrowers from MDBs in the past, like China, Brazil, India, Mexico, Indonesia, Peru, Turkey and others, have in recent years found themselves in much stronger fiscal positions and also with a great many options for sovereign borrowing, often at very low interest rates and in domestic currencies. MDBs still offer these countries resources generally at better financial terms than they can get from the markets, but the loans also come with a variety of strings attached that these countries may object to. Hence, a more realistic and complete picture of how MDBs function in the current global economic context requires understanding the role played by borrower demand.

The impact of these broad economic shifts on development lending is no news to the MDBs themselves, as evidenced for example by numerous World Bank strategy papers and lending procedure reforms designed to maintain its attractiveness as a development lender for middle-income country “clients” (the term itself is revealing), as will be discussed further below. Policymakers and journalists who follow development issues have also noted these changes, and this is reflected in some of the applied policy literature (see, e.g., Mallaby, 2005 and Einhorn, 2006). However, academic research has as yet not reacted in a significant way to the increasing importance of borrower demand. The only studies we have found to explicitly consider the role of demand are Ratha (2005) and Knack et al. (2012), both in relation to the World Bank.¹

A second step when considering how demand impacts MDB activities is to ask why countries might prefer to borrow from one MDB versus another, when they have a choice. Although the World Bank has been the object of the overwhelming majority of scholarly research on MDBs, some 20-odd MDBs exist in the world,² and many of them lend more to their client countries than the World Bank. While academia has begun branching out beyond the World Bank, only a few studies have compared governance structures of different MDBs and attempted to systematically test the impact of those differences on operations (for example, Gutner's 2002 book on environmental lending in Europe and the comparisons of donor influence at different MDBs by Kilby, 2006 and 2011 and Kilby and Bland, 2012). Is the lending for some MDBs declining, and rising for others? If so, why? Do countries view MDBs differently, and if so, what factors might make them different from one another? This study develops a theoretical explanation to address these questions based on the varying composition of MDB shareholders.

Existing literature on shareholder power has focused almost exclusively on the United States. However, as Lyne et al. (2009) point out in relation to the World Bank, the US is far from being the only shareholder able to influence an MDB. Gutner (2002) makes a similar point in her study of MDBs in Europe, as does Copelovitch (2010) in his study of the IMF. Lyne et al. (2009) highlight the "complexity" of principals to help explain how policies evolve through the collective preferences of all shareholding countries, as mediated by governance rules. Clearly the US has disproportionate ability to influence the actions of MDBs of which it is a shareholder. But it is overly simplistic to suggest that

formal voting rules are merely a façade to disguise US control and that other countries have no role in influencing MDBs.³ Academic research into MDBs needs to find ways to incorporate the role of other shareholders beyond the US or even the G7 to gain a more realistic understanding of how MDB decisions are actually made and implemented.

We simplify the framework of complex principals outlined by Lyne et al. (2009) by dividing shareholder countries into those that borrow from the MDBs, and those that do not. While all countries have their own particular interests and agendas, the dichotomy between borrowing and non-borrowing countries is particularly important in the context of an MDB, defining two major groups of shareholders that will tend to have divergent interests on each MDB's policies. Borrowing governments will want MDBs to supply loans and advisory services at as low a cost as possible, with minimum bureaucratic hassles and requirements. Non-borrowing countries, by contrast, will seek to impose their own ideas about development on borrowers, implement strict control on how resources are spent, and reduce the risk of MDB financial difficulties that they would have to pay for out of their guaranteed capital. The relative power of those two groups, we suggest, is a critical feature shaping how each MDB operates and the competitive advantages it has from the point of view of borrowing countries. Clearly, the "borrowing" and "non-borrowing" groups each comprise different countries with different interests on many issues, and we do not mean to imply that they operate in lock step. However, in the context of the governance of an MDB, the interests

of countries within these groups tend to converge, as the qualitative evidence in the next section demonstrates.

Focusing on more than one MDB is obviously necessary to compare the effect of different MDB governance structures. The World Bank, IADB and CAF each represent a different breakdown between borrowing and non-borrowing shareholders. The World Bank is controlled by wealthy non-borrowing countries (63.1% of voting shares controlled by non-borrowers in 2010), the IADB has more influence by borrowing countries but is still ultimately under the final control of non-borrowers (50.02% of votes controlled by borrowers, but the U.S. with veto power over capital increases, membership and changes to the Articles of Agreement), and the CAF is controlled by the same countries that borrow from it (97.1% voting shares controlled by borrower countries).

To facilitate the comparison, we focus on five countries in Latin America—Bolivia, Colombia, Ecuador, Peru and Venezuela—where all three banks have operated for over two decades.⁴ Because these are mainly middle-income countries, the division of labor within the World Bank, between the IBRD and the International Development Agency (IDA) lending windows, is less relevant here, and almost all lending that we cover in this study (over 90%) is non-concessional.⁵ The applicability of this framework to other MDBs operating in other parts of the world is plausible, but would require further research to test.

3. SHAREHOLDER POWER AND MDB CHARACTERISTICS

The MDB characteristics of interest for this study are those impacting the demand for loans on the part of borrowing countries. Essentially this comes down to three sets of factors: financial cost of loans, speed and ease of loan approval procedures and environmental/social safeguards. These factors are prominent concerns in the internal strategy documents of the MDBs themselves (for example, World Bank, 2001a, 2004, 2007 and 2010d) and were brought up consistently as top priorities in interviews with 22 borrower government officials in Colombia, Ecuador and Peru undertaken for this research.⁶ Other issues such as policy conditionality on budget support loans, technical assistance and the style of staff interactions with government officials are considered much less important in impacting borrowing decisions, according to interviews and MDB strategy documents, and as such are not analyzed here.⁷

Below we outline how the World Bank, IADB and CAF differ in these characteristics based on the logic of their respective shareholder composition. Unless otherwise noted, information in the subsequent section is always the result of the above mentioned interviews undertaken with 22 officials in Colombia, Ecuador and Peru directly tasked with multilateral borrowing, or interviews carried out with nine IADB shareholder representatives (seven borrower, two non-borrower); eight World Bank shareholder representatives (four borrower,

four non-borrower); seven CAF shareholder representatives; eight IADB staff; 12 World Bank staff; and seven CAF staff (see Annex 1 for complete list).

a) Financial terms

The cost of loans offered by the three MDBs is largely a function of the cost at which MDBs are able to raise money through bond issues on international capital markets, which is in turn passed through to the borrowing country along with a small mark-up. This funding cost is, in turn, a function primarily of the composition of countries backing each of the MDBs and the amount of guaranteed capital they post, as spelled out clearly in the reports of bond ratings agencies (see for example Fitch, 2010, p. 1 and Standard and Poor's, 2007, p. 7).⁸ Ratings agencies consider only the guarantee capital of wealthy countries to be reliable in the event of a crisis, and as such the World Bank and IADB—both with most major industrialized economies as shareholders—receive a AAA rating. The CAF, by contrast, has no major industrialized countries as members, which goes a long way to explaining its lower rating (Moody's, 2009; Standard and Poor's, 2010).⁹ As a result, the World Bank and IADB both borrow at extremely low rates—although the former borrows slightly cheaper, due to its global reach and perceived security—while the CAF pays a premium. As an example, all three MDBs issued five-year, US\$ bonds in 2011, at the following yields: World Bank (IBRD) 1%, IADB 1.375%, CAF 3.625% (Bloomberg L.P., 2012). Treasury officials in all three MDBs confirmed in interviews that both the

IADB and World Bank experience a “flight to quality” during times of capital market crises, lowering their borrowing costs, while the CAF’s spread over the other two increases (interviews with World Bank January 20, 2009 and November 17, 2009; IADB November 15, 2010; and CAF December 14, 2010).

(HERE FIGURE 2)

Because World Bank non-borrowing shareholders have a number of reasons to generate net income each year, the mark-up over funding costs at the World Bank is somewhat higher than at the IADB.¹⁰ The end result is that the loan costs of the two MDBs are roughly equal, or the IADB is sometimes slightly less expensive, while the CAF is considerably more expensive, though improving over time as its own ratings improve. CAF loans are still usually (but not always) less expensive than private sources for government borrowing. Loan maturities are also relevant for borrowers, and here again the three MDBs fall along a continuum: World Bank loan maturities are up to 30 years, the IADB 20-25 years, and the CAF variable but averaging 14 years.¹¹ This again is a direct result of the market perception that greater power of wealthy shareholding countries is more creditworthy, thus defining the MDBs’ maturity curves in their capital market issues, and hence the maturities they can offer on their loans to borrower countries.

Overall, then, the greater membership of non-borrowing industrialized countries constitutes an advantage for an MDB from the point of view of the borrower in relation to loan financial terms, as it improves the MDB’s access to international

capital markets. Country ministerial officials uniformly stated that loan price and maturity were top priorities when deciding on borrowing sources, and that this constituted a strong advantage for the World Bank and IADB vis a vis the CAF, and for all three over private market borrowing. This dynamic is slightly reduced by incentives to generate net income to suit the interests of non-borrowing countries, but only at the margins.

b) Loan approval procedures and time¹²

Officials in borrower governments who deal with all three MDBs, MDB staff and internal MDB assessments all stated that the World Bank imposes by far the most bureaucratic hassles and longest loan approval processes of the three MDBs, the IADB somewhat less and the CAF the least, and that this pattern is a direct result of shareholder influence.

Although times vary depending on project type, the World Bank generally takes 16 months from inception to final board approval (World Bank, 2007), compared to 10 months for the IADB (IADB, 2011) and 3-5 months for the CAF (CAF staff and borrower government interviews). The World Bank generally requires at least four full in-country missions during project preparation, compared to two or three for the IADB and frequently just one for the CAF (World Bank and IADB operations staff and borrower government interviews). Loan approval includes four major reviews for the World Bank (World Bank, 2012a), and although the IADB also requires four reviews (IADB, 2012b), two of these are frequently

“virtual” and in all cases require shorter documents and preparation than at the World Bank (interviews, IADB operations staff). The CAF requires only two substantive reviews, one of which is solely focused on the financial impact of the loan on the CAF’s own portfolio, and board approval considered a formality (CAF staff interviews). As well, all CAF loans under US\$75 million can go ahead without board approval (Ibid.).

The required procedures slowing down approvals of loans at the World Bank are the result of non-borrowers seeking to control the way the MDB uses its resources, over the wishes of borrower countries seeking faster loan approvals, according to interviews with shareholders and staff. As one long-time operations staffer in the World Bank’s Latin America division put it, “These ideas come from the Part 1 [non-borrower] countries, they’re certainly not the borrowers’ ideas—they didn’t come to the Board asking for tighter restrictions on how we do things” (World Bank interview, September 7, 2011). A World Bank shareholder representative from Latin America agreed: “It all comes from developed countries. With less than 30% of the vote, we are in a weak position to influence policy design and define performance standards. The shareholding is crucial to define the design of these policies” (World Bank interview, December 14, 2011). This view was repeated by other World Bank shareholders—borrower and non-borrower alike—as well as World Bank operations staff.

Loan approval procedures are similar at the IADB, but IADB executive directors and staff stated that greater voice of borrowers on the IADB board led to a more compromising attitude on the part of non-borrowers in designing more flexible

policies than at the World Bank. This, in turn, gives staff greater leeway to streamline procedures (virtual review meetings, shorter loan documents and fewer in-country missions), explaining the advantage in loan approval speed by the IADB despite formally similar procedural requirements. Ministry officials in borrower governments uniformly stated in interviews that they find the IADB more flexible and willing to adapt rules to country circumstances, compared to a much more rigid, legalistic attitude on the part of World Bank staff. This more flexible attitude is further strengthened by the fact that a much higher proportion of IADB staff are drawn from borrower countries (68% at the end of 2009, according to IADB 2012a), meaning there is a much higher level of cultural and even personal familiarity with government officials.

The CAF's loan approval procedure is far faster and less formal than either the other two MDBs. Several officials in borrower governments said that the CAF is willing to bypass most formal procedures entirely in cases of urgent need on the part of a government, and that a loan can begin disbursing in as quick as a month or six weeks if needed. Staffers and shareholders alike say this organizational agility is directly linked to the fact that borrowing country shareholders control the institution, unlike the World Bank and IADB. "We are much less rigid than the other multilaterals, which have certain impositions from donating countries that we do not," said one operations staffer (CAF interview, May 25, 2009). This is exemplified in the structure of the CAF board. Rather than a full-time, sitting board, as with the IADB and World Bank, the CAF's board meets only two or three times per year, and much more authority is delegated to the CAF

administration—in some sense, the principal-agent issue so much studied in relation to the World Bank and other IOs is non-existent at the CAF, because of its unique shareholders composition.

Ministerial officials in all three countries reported that approval procedures and speed are important considerations in loan decisions, because of the political importance of certain projects, the opportunity cost of delaying projects of high economic value and for dealing with emergency situations. As such, the CAF's much faster procedures are very attractive, and the slightly higher speed and much greater flexibility of the IADB vis a vis the World Bank also constituted an advantage.

(HERE TABLE 1)

c) Environmental and social safeguards

The “safeguards” are a series of procedures and requirements above and beyond national legislation for World Bank and IADB projects that are deemed to present social and/or environmental risks. As demonstrated in detail by, among others, Wade, 1997 and Shihata, 2000, the safeguards were originally imposed on the World Bank by non-borrowing shareholders, themselves pressured by environmental groups and legislatures, against the wishes of borrower shareholders. This dynamic has continued to the present. Shareholder representatives from three Latin American countries at the World Bank said that they opposed the push by non-borrowers to impose safeguards above and beyond national legislation (World Bank interviews, December 12 and 14, 2011; January

25, 2012). “It all comes from developing countries,” said one. “The Nordic chair generally pushes a lot about performance standards, France and Germany also push, and the United States too depending on the project” (World Bank interview, December 14, 2011). Non-borrower representatives interviewed, including the U.S. executive director, all stated that safeguards should be tightened further as a condition for their countries’ continued support to the World Bank (World Bank interviews January 13, 25 and 30, 2012).

The IADB’s safeguards are currently very similar to the World Bank’s, and here again shareholder interviews point to non-borrower shareholders as the driving force behind them, with borrowers opposed (IADB interviews January 10, 13, 24 and 31, 2012). Indeed, the U.S. Treasury’s report to Congress in 2011 justified its agreement to the capital increase in part by noting that its requirement for the IADB to revise E&S safeguards had been complied with (U.S. Department of Treasury, 2011). However, a close reading of the policies reveals that they are somewhat more flexible for the borrower in several key areas and require less bureaucratic oversight than at the World Bank (see Table 2). As Nelson (2000) noted, “World Bank adoption of a policy precedes the I[A]DB’s and creates a standard...The I[A]DB adapts and revises the World Bank’s global approach in ways that reflect the attitudes of regional governments toward the new policies...[The resulting policy] leaves broad discretion with the I[A]DB’s country offices and borrowing government officials” (Nelson, 2000, p. 419-20). A top IADB environmental staffer agreed with that assessment, saying, “Compared to the World Bank, we are less procedural” (IADB interview,

December 7, 2011). The World Bank's own internal surveys have also found that borrower countries find its safeguards significantly stronger than the IADB's (World Bank, 2010c).

The fact that borrower shareholders control the CAF ensures that it imposes no binding external constraints on environmental and social aspects of project lending, beyond national laws. The CAF has no formally defined safeguard policies, only a brief list of 14 principals (CAF, 2007). According to former CAF officials as well as an independent NGO report (Bank Information Center, 2008), the CAF has no safeguard policies, but rather makes decisions on a project-by-project basis. One high-level CAF staffer said policies "are not imposed from the outside by third parties, they are Latin American policies designed for this context... Our policies don't respond to the policies of non-borrowing countries like the other banks" (CAF interview, August 24, 2011).

Ministerial officials from borrower governments said that safeguard variations between the MDBs were less of a priority to them than price and approval speed, but that they are particularly problematic in major infrastructure projects, especially transportation infrastructure. As a result, the CAF's policies were much more appealing for these types of projects, while the IADB was slightly easier to deal with compared to the World Bank.¹³

(HERE TABLE 2)

4. HYPOTHESES

This section summarizes the evidence described above on the link between shareholder composition and the characteristics of MDB loans of interest to borrowers, and uses it to build testable hypotheses. The over-riding premise here is that the factors described above combine to form an overall “price” faced by borrowers for MDB loans, which includes both financial costs as well as bureaucratic hassles. The assumption driving our hypotheses is that borrowers prefer this “price” to be as low as possible. Interviews with borrower government officials substantiated that loan price, approval procedures and safeguards are key factors impacting their decisions on which MDB to borrow from, depending on the country’s economic circumstances. Based on the link between shareholder power and these operational characteristics, we formulate our hypotheses.

Because the World Bank is dominated by non-borrowing industrialized countries, it can access capital markets at highly favorable terms for its bonds, and hence has a steady stream of lendable capital at terms well below what many borrowing countries normally get on private markets. At the same time, non-borrowing countries impose more onerous project oversight requirements as well as multiple layers of bureaucracy and slow loan approval time. These non-financial aspects to World Bank loans are, on the whole, unappealing to borrowing countries, and can outweigh the low financial cost, notably when countries’ alternatives for sovereign financing increase and when their borrowing needs decrease. For Latin

American countries that, on average, tended to have increasing access to alternative sources of finance from 1990 onwards (from both private capital markets as well as new bilateral lenders such as China and Brazil), this should lead to a long-term trend away from World Bank lending. Over and above that long-term trend, during years when a country is doing relatively better they would be even more inclined to move away from the World Bank. The opposite should be true during years when they are in a relatively more constrained economic and financial situation. When a crisis becomes global, tight international capital markets and reduced country access to private financing should further strengthen the attractiveness of the World Bank due to its unparalleled access to capital markets and the “flight to quality” of bond buyers.

The borrower-dominated CAF, by contrast, has weaker and more expensive access to capital markets. Hence the financial terms of its loans are less attractive than the World Bank’s, especially in a time of economic turbulence. On the other hand, because it is controlled by the very nations it lends to, the CAF has no incentive to impose the safeguards that many borrowers object to in World Bank operations, nor any reason to build up the bureaucratic layers of checks and balances that slow down loan approval. This limited bureaucracy is attractive to borrowing countries, although the higher cost of loans is a drawback. Typically, the stronger the macroeconomic situation in a country, the more important a country will consider the former as compared to the latter. As a result, one can expect that the long-term trend of lending by Latin American countries will move towards the CAF as opposed to the World Bank. Over and above the long-term

trend, countries will react year-to-year relatively more in favor of the CAF in better economic situations, and relatively less so in worse situations. In times of crisis, however, CAF borrowing costs on private markets are likely to rise considerably due to its own higher cost of funding, thus reducing the attractiveness of CAF loans. Moreover, in times of crisis, the needs of individual countries may surpass the loan amounts the CAF can provide.

The IADB occupies an intermediate position between the World Bank and the CAF in terms of shareholding structure, with borrowers controlling a slim majority of voting power on individual loan approvals, but with industrialized nations led by the US able to veto any changes to IADB policies and organizational structure. As a result the IADB enjoys some of the same advantages as the World Bank in terms of access to capital markets and low cost, and also some of the disadvantages such as more bureaucratic loan approval procedures and safeguard policies demanded by non-borrowers. However, the greater power of borrowing shareholders as well as the fact that most IADB staff is from the region's political and economic elite, loan preparation and negotiation is smoother and bureaucratic requirements less rigid. Hence, over the long term, the IADB is expected to see lending rise more (or decrease less) than the World Bank. However, it should not rise as much as for the CAF. Similarly, IADB lending is expected to react in between the other two MDBs during short-term yearly fluctuations of a country's economic and financial circumstances. During crisis years, IADB lending should increase more than CAF lending, but less than World Bank lending.

We can sum up the above discussion with the following testable hypotheses:

1. Under conditions of generally positive fiscal and developmental trends in their borrowing countries, as a long-term trend the World Bank (non-borrower dominant MDB) will experience a decline in lending, the CAF (borrower dominant MDB) will experience an increasing trend, and the IADB (non-borrower predominant) will find itself in between.
2. Around this longer-term trend, countries will gravitate toward World Bank lending and to a lesser degree the IADB, and away from the CAF, as their circumstances worsen in the short term, and vice versa when short-term conditions improve.
3. In times of global crisis, the World Bank and, to a lesser degree the IADB, will show an increase in lending, while CAF lending will increase less or even decrease.

5. STATISTICAL ANALYSIS

To test the above hypotheses, we need to compare the overall trends of lending by the three different development banks, and the reaction of their lending to different economic and capital market conditions, controlling for possibly interfering variables. Our dependent variable is lending commitments by each of

the three MDBs to the five countries of Bolivia, Colombia, Ecuador, Peru and Venezuela for the period 1991-2010.¹⁴

To test the first hypothesis on the correlation between MDB lending and the long-term economic development in the region (in all its different dimensions), we simply introduce a linear time trend (Year). To assess the second hypothesis related to the specific influence of variance in individual economic variables over and above this general trend, we utilize measures of GDP per capita, international reserves and investor rankings. GDP per capita and reserves are intended to proxy how badly a country might need external resources or not, and the investor index gives a sense for a country's access to private capital markets to fill those needs (alternative supply). For the latter, we use the Institutional Investor index of sovereign risk, which is also employed by Ratha, 2005 and Knack et al., 2012 for similar purposes.¹⁵ We include a separate indicator variable for the global crises in 1997/98 and in 2009, with the aim of verifying the impact of global capital market tightening as described in the third hypothesis.

Our control variables include the inflation rate as a measure of economic governance, and the number of (relevant) votes along with the US in the UN General Assembly for political closeness to the largest shareholder in the World Bank and the IADB. In the existing literature, such variables reflecting the governments' general political stance as well as their economic policies have frequently been shown to influence MDB lending (Thacker, 1999, Burnside and Dollar, 2000, Dollar and Levin, 2004, Dreher et al., 2009a and 2009b, and Kilby 2006, 2010 and 2011, among others). We also include IMF lending as an

alternative source of funding, and the countries' population as a simple scaling factor. All variables and data sources are described in Annex Table A1.

We acknowledge at the outset that the variables included in our empirical model can a priori reflect supply and demand side considerations. In fact, previous studies advancing only supply side arguments face exactly the same dilemma, but this tends to be overlooked and is usually not even mentioned. To address the issue explicitly, we present both perspectives in Table 3, with the coefficient signs that each interpretation would predict. For all relevant explanatory variables, the sign of the estimated coefficient indicates whether the demand or supply perspective is more plausible.

For example, our hypotheses predict a negative correlation between reserves and World Bank lending in a given year, due to the country demanding less World Bank loans. However, from a supply side perspective, the World Bank could be expected to increase the loan offer because the country is a more attractive low-risk borrower. For poor African countries, an alternative, need-driven supply argument may be plausible, but none of our interviews and other existing information from within the MDBs suggests that this would be the case for the middle-income countries and years in our sample. Since the early 1990s, the World Bank has produced numerous strategy reports and undertaken various procedural reforms specifically for the purpose of maintaining lending relationships with wealthier middle-income countries, which the World Bank fears no longer want to work with them. This includes the middle-income country assessments and strategies (World Bank, 2001b, 2004 and 2007), studies on the

costs of safeguard policies (World Bank, 2001a and 2010c), the country systems pilot (World Bank, 2005), investment lending reform (World Bank, 2009) and the recent Program for Results instrument (World Bank, 2011d). The drive to continue lending to wealthier borrowers—in part to protect the quality of the loan portfolio—is also noted by Knack et al. (2012, p. 171), and was raised repeatedly in interviews with World Bank staff and shareholders.

The design of our model—looking at the comparisons between the impact of relevant explanatory variables the lending of three different MDBs (rather than just one)—further helps us bring out these demand effects more clearly.¹⁶

While the coefficients for economic variables will give more or less plausibility to either the demand or the supply side arguments, the situation is more difficult to interpret for policy variables. A country that is politically opposed to the US may either prefer to borrow from the CAF, or otherwise, the World Bank and the IADB may be more reluctant to lend. For example, Ecuador has not borrowed from the World Bank since 2009. Many existing studies would interpret a correlation between Ecuador's U.N. voting against the U.S. and no lending as a sign of U.S. influence at the World Bank. However, interviews with Ecuadoran government officials and World Bank staff in the Ecuador office make it clear that in fact the World Bank would like to re-start lending, but the country prefers not to take out loans for its own political reasons. Since the distinction is impossible to ascertain in a statistical framework, we use these variables only as controls.

(HERE TABLE 3)

Conceptually, our argumentation is based on the idea that for any Latin American country, borrowing from the World Bank, the CAF and/or the IADB must be considered as joint decisions, because these banks operate in a common market. This has consequences for the choice of our regression model. If lending by different MDBs is not determined independently from each other, this information can be taken into account to obtain more efficient regression estimates. We therefore use seemingly unrelated regression estimation (SURE) that allows error terms to be correlated across equations. In addition, SURE is convenient to compare the three individual MDB cases, which is necessary to examine the role of the three governance types. We do so by testing the differences in the coefficients of crises, booms and trend variables for the different MDB regressions using (one-sided) Wald tests.

The first three columns in Table 4 show the SURE regressions using (1) World Bank lending, (2) IADB lending, and (3) CAF lending as the dependent variables. The remaining three columns show the differences in the coefficients for the different banks and the significance of these differences according to the Wald tests.

The first line, for the linear trend, provides partial support for the hypothesis related to long-term trends in lending choices. On average over the 20-year period and the five countries considered, and at given levels of the other variables, World Bank lending has declined by 11 million USD per year, IADB lending has

declined by 21 million, and CAF lending has increased by 20 million. These effects are statistically significant for IADB and CAF. We hypothesized that the coefficient for IADB should be greater (more positive) than for World Bank, and that the CAF's should be greater than for both other banks. The difference in the coefficients for World Bank and IADB indicates a stronger (here: less negative) time trend for World Bank, but this unexpected result is non-significant (column 4). Conversely, and as expected, the CAF shows a significantly more positive time trend than either the World Bank (column 5) or the IADB (column 6).

These results indicate that over time, along with the overall growth and stabilization of Latin American economies, CAF lending increased steadily, while World Bank lending declined. The even stronger negative trend observed for the IADB was unexpected both theoretically and based on the graphical illustration in Figure 1, which suggests a similar trend between the two MDBs. This implies that the development represented in the graph is partially driven by some of the other variables. In any case, from Figure 1 we know that the absolute level of IADB lending remained above World Bank lending throughout the period, apart from three years. In fact by 1991 the IADB was already lending more in absolute terms than the World Bank, which could indicate that the dynamics behind the first hypothesis may have already played out before the time period analyzed here in relation to the IADB vis a vis the World Bank. Alternatively, it could be that the differences in loan approval procedures and safeguards between the World Bank and IADB (imposed in both by non-borrower shareholders, recall) are too

marginal from the point of view of the borrower to make much of a difference between the two MDBs, compared to the far more borrower-friendly procedures at the CAF.

(HERE TABLE 4)

Over and above the general trend, the specific economic variables related to the second hypothesis show the expected results for the investor index. A one point increase on the investors' ranking scale (0-100) leads to a 20 million USD decrease in World Bank and a 13 million decrease in IADB lending. At the same time, it leads to an 8 million increase in CAF lending. As with the linear trend, the differences in coefficients between the CAF and the other two banks have the expected sign and are strongly significant. These outcomes are very difficult to reconcile with a supply-side perspective. They clearly indicate a preference for the CAF whenever a country is rated highly so that it has a generally better access to the capital market. While the difference between World Bank and IADB now also points in the expected direction (IADB taking up an intermediate position between World Bank and CAF), it is again non-significant (column 4).

The other economic variables (GDP per capita and reserves) do not show the expected results. To some extent, this may be due to the multicollinearity between the different variables.¹⁷ When taking out the time trend and the investors' ranking, neither GDP per capita nor reserves are significant for the lending of any of the three banks. When we only enter the investors' ranking, the positively significant reaction of CAF remains unchanged. This implies that access to the

capital market matters most for our demand-side arguments. The more traditional economic indicators fail to show the expected effect – at least as long as we control for individual country fixed effects (FE).¹⁸

The effect of the global crises variable also shows some unexpected features. *Ceteris paribus*, the effect of a global crisis reduces rather than increases World Bank lending, by an average amount of 167 million USD. We believe that this can only be interpreted as a supply restriction, given that the World Bank as a global player faced simultaneous demands from all parts of the world during these situations. This was particularly true during the 1998/99 crisis (see Figure 1), where the World Bank apparently focused more on lending to the hard-hit Asian economies. The IADB as a regional development bank shows the expected significant and positive coefficient, indicating that as a regional MDB it stepped in to fill the gap left by the World Bank's supply restrictions. While the CAF is also a regional MDB, its own cost of funding would have spiked during the crisis (it is negatively impacted during capital market tightening, unlike the other two MDBs, as discussed in Section 3), explaining the negative coefficient. This is in line with our hypothesis that in times of economic crisis, countries shift their demand towards MDBs with lower lending cost.

Coefficients for the political control variables correspond to the typical findings in the literature, which enhances our confidence in the correct specification of the model overall. UN voting along with the US significantly increases the average loan volume extended by the World Bank (as found by Anderson, et al. 2005 and Dreher et al. 2009a) while it is insignificant for the IADB (as found by Bland and

Kilby, 2012). The large coefficient for the World Bank refers to the hypothetical situation that a country that never voted along with the US then always votes with the US. The coefficient indicates that, on average, a country that increases the share of its votes along with the US by 10 percentage points would receive 67 million USD more in World Bank loans. As with the IADB, the coefficient is not significant for the CAF; and both regional development banks differ significantly from the World Bank but not among themselves. Similarly, only World Bank lending reacts negatively to higher inflation, but the positive reaction of both the IADB and CAF suggests a possible substitution effect—although as stated previously whether this is driven by supply or demand considerations is not clear. Regardless, even though differences between the MDBs related to inflation are significant, the coefficients are very small, implying that the impact of this policy variable is minimal (at least at the relatively low inflation levels prevalent during the period under analysis).

The control for alternative funding by the IMF is insignificant throughout, possibly due to mutually offsetting effects (e.g., IMF funding could show the need for resources, but also that existing needs are being covered from this alternative source). At the same time, the control for population appears important, at least for the World Bank and the IADB, although country FE should already capture the bulk of the variance in population size.

We check the robustness of these results in a variety of ways. Annex 3, Table A2 presents some alternative specifications using per capita lending rather than the absolute volume of lending, using tobit regressions, and using a specification in

logs. To save space, we use joint regressions across all three banks (with MDB-specific country effects) rather than SURE regression, and we specify interaction terms for all variables with an IADB and a CAF dummy respectively. While this does not provide us with a significance test for all differences between the three banks, it shows whether and to what extent IADB and CAF lending reacts differently from World Bank lending. Results of regressions that appear most convincing in econometric terms do confirm our results, and differences between the different specifications find plausible explanations. Annex A3 provides a detailed account of the regressions presented, discusses the pros and cons of each specification, and compares the results. We also test for serial correlation, for which we find no evidence whatsoever (neither using a Wooldridge test, nor a Baltagi-Li test).¹⁹

All in all, our results appear relatively robust and point to a significant role of demand-side factors playing out in different ways for the three banks, in line with the theoretical arguments on their governance structures. Of course, as an initial explorative analysis, this study had to concentrate on a clearly defined region and period, and thus a limited number of relevant banks. To ascertain if the same dynamics hold true in other regions of the world and with other MDBs, it would be necessary to expand the analysis. This would also mitigate the problem of just including a single case for each of the three governance structures. Annex Table A5 illustrates that other MDBs exist with similar distributions of votes as in the three banks considered so far – some of them with considerable the lending volumes. While an extension to these banks is beyond the scope of this paper, it

should be possible to use this classification for further research testing the external validity of our results.

6. CONCLUSIONS

Starting from the observation that lending by different multilateral development banks (MDBs) has developed in strikingly different ways over the last two decades, this paper assesses the determinants of lending from a demand-side perspective, which has thus far been largely overlooked in the literature. Based on interviews with bank and country staff and officials, as well as on a multivariate statistical analysis, our results broadly confirm the theoretical argument that demand for loans depends, among other things, on the governance structures of the MDBs, notably on the balance of power between their borrowing and non-borrowing shareholders, and the implications of this governance structure for loan cost and bureaucratic procedures. Borrowers weigh these factors differently depending on economic circumstances, so that the relationship between economic conditions and lending can be used to (indirectly) assess the link between MDB governance structures and demand for lending.

The results of this study do not (and were not expected to) reject the notion that supply-side dynamics play a prominent role in shaping MDB lending patterns, and in fact our findings in relation to global crises and policy variables substantiate supply-side impacts. But the evidence indicates that the

overwhelming focus on supply-side considerations in the existing literature can and should be usefully supplemented with demand considerations, taking into account the preferences of borrower countries. This is particularly true in light of the changing economic panorama for many middle-income developing countries that have heretofore been among the largest MDB borrowers.

Our analysis covers three MDBs with different governance structures:

(i) domination by non-borrowers (World Bank), (ii) domination by borrowers (Andean Development Corporation, CAF), and (iii) more balanced control by both borrowers and non-borrowers (Inter-American Development Bank, IADB), and five Latin American countries that had access to lending from all three banks.

While this initial analysis is thus limited to a specific region and a selection of banks, it might be interesting to extend it to other MDBs and a higher number of countries, especially as the relevance of this topic for individual banks can be expected to rise. Lending is the core business of MDBs, required for their own access to financial resources, ensuring their survival and providing a certain degree of independence from their shareholders. Thus, changing demand for MDB loans must be expected to affect their behavior.

The issues raised in this paper are, of course, not only of interest to academia, but to the broader development community, especially those shaping policy toward and within MDBs. If demand for sovereign lending continues to evolve in the ways described in this paper, it will have major implications for the multilateral aid framework, and raises a number of questions. Do MDBs compete with one another and private capital to make loans in a more demand-driven environment,

and if so, how and with what developmental impact? Can the World Bank's financial model—based on income derived mainly from loan proceeds—survive with a relatively low and maybe declining long-term lending trend, punctuated by sharp spikes in lending during crisis times? Are shareholders willing to modify the World Bank's financial model to pay for public goods (knowledge, aid coordination, crisis assistance) in spite of declining loan income, and if so, how? Should regional and sub-regional MDBs take a more pre-eminent role, as some observers (Grabel, 2012 and Griffith-Jones et al., 2008) have suggested? These are all issues that policy-makers are likely to face with growing urgency in coming years, and are relevant topics for future research.

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ENDNOTES

¹ Another exception is Mosley et al. 1995, who analyze in detail the bargaining between borrower governments and an MDB (the World Bank), but in the specific context of adjustment lending in the 1980s, where the governments in question badly needed resources and had few other options.

² An MDB can be defined as an international organization that: i) is created by international treaty among sovereign nations, which are its shareholders; ii) has the mission of promoting economic development in less developed countries; iii) makes loans largely (but not necessarily exclusively) to sovereign governments; iv) is for the most part financially self-sufficient, without requiring regular contributions from shareholding countries; and v) raises money for lending primarily on private capital markets, with the guarantee of their shareholding countries. See IDS 2000.

³ A number of studies have pointed to the informal influence of the U.S. in influencing the IMF, World Bank, IADB and Asian Development Bank, including Kapur, 1999; Woods, 2006; Stone, 2008; Babb, 2009; and Kilby 2011 and 2012). While it is undeniable that the U.S. does have informal levers of power in these institutions, we would suggest that most of the U.S.'s "informal" power at the IADB and World Bank is derived from its *formal* veto power over changes to the Articles of Agreement and capital structure. Other shareholders are well aware of this, and more inclined to give the U.S. what it demands on major issues, particularly in the context of a capital increase negotiation. Hence, in our view, formal shareholding structures remain critical to defining governance. This is supported by the bitter disputes between members over even very small changes in voting shares at many MDBs and the IMF. Nonetheless, we acknowledge that formal voting structures cannot fully explain all aspects of MDB activities.

⁴ The CAF has more recently begun to expand membership beyond the five countries, but we focus on these countries to provide a longer time series for comparison.

⁵ Both the IADB and World Bank have "non-concessional" and "concessional" lending windows. The former is based on the MDB's borrowing costs (i.e., linked to market rates), while the latter is long maturity and interest free or very low interest lending, that involves a very large "aid" component as defined by the OECD. We include concessional lending in our data, but the amount to the countries and

time period under study is quite low (5.9% of IADB lending, almost entirely to Bolivia, and 7.2% of World Bank lending, entirely to Bolivia) and does not significantly impact the results. In other parts of the world where concessional lending is a much higher share of total, notably sub-Saharan Africa, this sort of demand-oriented analysis would be fundamentally different.

⁶ In-depth, in-person interviews were conducted with current and former officials in the finance and planning ministries, all of whom had direct authority on borrowing decisions with MDBs. Peru interviews were conducted in June 2009, Colombia in May/June 2012, and Ecuador in June 2012. See Annex 1 for a complete list.

⁷ This may seem particularly surprising in the case of policy conditionality on budget support loans (as opposed to investment loans), which has received considerable attention in academic literature. However, policy conditions are much less binding now for borrower governments, at least those in Latin America, because both the World Bank and IADB specifically build loans around reforms that the government clearly wants to do or is in fact already doing. This was reported by all officials interviewed. As one Colombian official said, “Policy loans are now relatively easy for us to prepare, because they are using reforms that are ready, the banks don’t oblige or demand anything, practically. We sell what we have done” (interview, June 6, 2012). An examination of policy-based loans by the World Bank and IADB in recent years for the five Andean countries makes it evident that the days of enforced privatizations and removal of trade barriers are long gone – loan conditions relate to low-profile technical issues, such as tax policy changes, decentralization or better targeting mechanisms for social spending programs. As well, some finance ministry officials reported that they often collude with MDBs to design policy conditionality in a way that serves their purposes in battles with line ministries, similar to the dynamic reported by Vreeland, 2003. The CAF provides some budget support (frequently labelled as a “sectoral investment loan”), but has never attached policy conditions.

⁸ “Intrinsic” factors such as capital adequacy and reserve ratios are much less important than shareholder composition and guarantee callable capital in defining the rating, particularly for the World Bank and IADB. As one former top World Bank finance official wrote, “...ratings agencies do not actually base their

rating of the MDBs on the spurious sophisticated and often confusing, if not almost irrelevant, financial ratio analysis they purport to impress their readership with. Instead, they now appear to be basing their judgment solely on the strength of usable callable capital” (Mistry, 1995, p. 73).

⁹ CAF’s rating was A+/AA- as of 2012, and its ratings have climbed steadily over the past two decades. This improvement comes mainly as a result of consistently strong financial ratios such as high capital adequacy and extraordinarily good repayment record (far better than the World Bank and IADB), and also due to the fact the membership has expanded in recent years (Moody’s, 2009 and Standard and Poor’s, 2010).

¹⁰ These issues are explored in detail in Humphrey 2012a. Briefly put, non-borrowing shareholders at the World Bank are motivated to generate higher net income through higher loan charges to i) allocate to IDA and hence reduce their own budgetary contributions; ii) allocate to special programs, many of which are of interest to non-borrowers more than borrowers (for example, West Bank/Gaza reconstruction); and iii) build reserve to protect against any call on their guarantee capital and also to build overall capital without the need for a politically difficult capital increase. As a result, loan charges and net income allocations are the topic of constant disagreements among shareholders, as confirmed by interviews with 17 shareholder representatives at the IADB and World Bank for Humphrey, 2012a, and also discussed in Kapur, 2002 and Mohammed, 2004. The greater power of borrowers at the IADB has limited these allocations (FSO does not receive net income allocations, and special programs are minimal), while in the CAF they essentially do not exist. This explains why IADB loans are sometimes cheaper than the World Bank’s despite a slightly higher funding cost, and why the CAF loans are closer in cost to the other two MDBs than one might otherwise expect.

¹¹ The World Bank and IADB loan terms are accessible on their websites; CAF loan maturities were compiled and averaged from the 2010 and 2011 annual reports. CAF loans from earlier years would, if anything, have shorter average maturities.

¹² The analysis in this and the subsequent sub-sections are discussed more fully in Humphrey 2012b.

¹³ Interestingly, of the three countries, Colombian officials were somewhat more nuanced on the issue of safeguards. Officials complained repeatedly about the very high additional costs and time occasioned by the safeguards, and objected to the safeguards in principal as condescending and unnecessary considering their own stringent laws. However, they noted that the World Bank or IADB safeguards could provide useful political cover when undertaking a sensitive project, for example building a highway in an environmentally fragile area or through a region populated by indigenous peoples.

¹⁴ In the literature on international development assistance, disbursements are typically used in studies of aid effectiveness, whereas commitments are used to examine the motives of aid allocation or borrower demand. See Berthélemy 2006 and McGillivray and White 1993 for further discussions of the relative merits of commitments vs. disbursements.

¹⁵ An indicator tracking the interest rate faced by a government would be ideal here, but this would involve finding out the interest rate a government *would have had* to pay to borrow from private markets, for both bonds and bank loans. This counter-factual cannot be realistically constructed.

¹⁶ An ideal variable to better disentangle supply from demand effects would be the amount each MDB would have been willing to lend to each country for each year—while this information does exist, it is unfortunately not publicly available.

¹⁷ The bivariate correlation coefficients between any two of these variables except GDP per capita and reserves are above 20%, between the investors' ranking and GDP per capita, it is as high as 55%.

¹⁸ Given the results of a Hausman test, the inclusion of FE is clearly indicated, and RE-estimation is biased. See Annex 3, Table A2, for a comparison with a random effects regression (Regression 1).

¹⁹ As further alternative to these specifications, we considered using the Libor-based loan rates (Figure 2) directly as additional explanatory variables. However, a reliable time series could not be constructed because of comparability issues between loans offered by different MDBs in different time periods, as well as data shortcomings. As a test, we constructed a new variable by taking the difference between the CAF and the IBRD Libor rates (assuming that the IBRD rates

approximately also reflect those of the IADB as Figure 2 suggests), and it is positively and significantly correlated to IBRD lending (i.e. the higher the price of the CAF, the higher IBRD lending), and this effect reduces the effect of the general trend (year). Overall, this is consistent with our expectations.

ANNEXES

Annex 1. Interview List

Colombia Government

Alejandro Gaviria, former Deputy Director of DNP (2002-2004), June 6, 2012

Carolina Rojas, former sub-director of External Financing (2009-2011) and current advisor to the vice-minister, MHCP, May 29, 2012

Miguel Ángel Gómez, Sub-Director of External Financing, MHCP, May 29, 2012

Juan Mauricio Ramírez, former Deputy Director of DNP (2009-2011) and current sub-director of Fedesarrollo, May 30, 2012

Francisco Lloreda, former minister of Education (1999-2001), current advisor to the president, May 29, 2012

María Ines Agudelo, former MHCP official (1999-2006) including vice-minister, also high-level official in the Transport Ministry (2010), Director of Fogafin (2012), June 7, 2012

Natalia Bargans, Director of External Credit for DNP (2007-2012), June 6, 2012

Olga Bautista, Director of Multilateral Credit at Environment Ministry (2010-2012), June 1, 2012

Santiago Montenegro, former director of DNP (2002-2006), June 1, 2012 (also served as CAF representative)

Óscar Iván Zuluaga, former MHCP minister (2007-2010), May 30, 2012 (also served as CAF representative)

Ecuador Government

María Dolores Almeida, Vice-Minister of Finance and former sub-secretary of public investment (2000-2002), June 12, 2012

Mauricio Pozo, former minister of finance (2003-2004), June 12, 2012 (also served as CAF representative)

Fausto Ortiz, former minister of finance (2007-2008), June 8, 2012 (also served as CAF representative)

Luis Villafuerte, Sub-secretary of Public Credit, June 8, 2012

Milton Coronel, advisor to sub-secretary of public credit, June 8, 2012

Mauricio Yepes, former minister of finance (2004-2005), June 8, 2012 (also served as CAF representative)

Mauricio Leon, Vice-Minister, Ministry of Economic Policy Coordination, June 11, 2012

Alexandra Lastra, Monitoring and Evaluation Coordinator, Ministry of Economic Policy Coordination, June 11, 2012

Peru Government

Betty Sotelo, National Director of Public Debt, Ministry of Finance, June 5, 2009

Fernando Zavala, former vice-minister and minister of finance (2005-2006), June 8, 2009
(also served as CAF representative)

María del Carmen Rivera, advisor to finance minister and lead negotiator on multilateral
budget support lending, June 9, 2009

Edgar Zamalloa, former advisor to finance minister, June 8, 2009

CAF Executive Board

Six county officials listed above (noted in parenthesis)

Former Latin American Executive Director, December 19, 2011, anonymity requested

CAF Staff

Treasury staff, December 14, 2010

Operations staff, May 25, 2009

Top management, August 24, 2011

Management, August 23, 2011

Former staff, at time of interview working as World Bank staff, June 1, 2009

Former environment staff, June 22, 2011

CAF/IADB former environment staff, at time of interview working as World Bank staff,
September 6, 2011

IADB Executive Director/Alternate Executive Directors

Argentina Executive Director Eugenio Díaz-Bonilla, January 13, 2012 IADB

Brazil Executive Director Sérgio Portugal, January 10, 2012

Chile Executive Director Alejandro Foxley, January 24, 2012

European G7 Alternate Executive Director, January 13, 2012, anonymity requested

European G7 Alternate Executive Director, January 31, 2012, anonymity requested

Latin American Executive Director staff, January 24, 2012, anonymity requested

Latin American Executive Director, January 19, 2012, anonymity requested

Former Brazil Executive Director Rogério Studart, (now with World Bank), December 12, 2011

Former Latin American Executive Director, December 19, 2011, anonymity requested

IADB staff

Treasury staff, November 15, 2010

Operations staff, January 24, 2012

Environment operations staff, December 7, 2011

Operations strategy staff, January 18, 2012

Operations strategy staff, January 24, 2012

Procurement specialist, April 27, 2012

CAF/IADB former environment staff, at time of interview working as World Bank staff,
September 6, 2011

Former operations staff, April 3, 2009

World Bank Executive Director/Alternate Executive Directors

Brazil Executive Director Rogério Studart, December 12, 2011 (previously served as
IADB ED)

Latin American Alternate Executive Director, December 14, 2011, anonymity requested

Latin American Alternate Executive Director, January 25, 2012, anonymity requested

European Executive Director interview, January 25, 2012, anonymity requested

Swiss Executive Director Jorg Frieden, January 13, 2012

European Executive Director staff, January 30, 2012, anonymity requested

US Executive Director Ian Solomon, January 30, 2012

Former Latin American Executive Director, December 19, 2011, anonymity requested

World Bank Staff

Corporate Finance official, January 20, 2011

OPCS staff, October 4, 2011

OPCS staff, September 7, 2011

OPCS staff, January 12, 2012

Procurement specialist, April 24, 2012

Treasury staff 1, January 20, 2009

Treasury staff 2, November 5, 2009

Treasury staff 3, November 17, 2009

Treasury staff 4, September 15, 2010

Ecuador team staff, May 14, 2012

Latin America operations staff, January 31, 2012

Latin America operations staff, former country manager, January 25, 2012

Other

FitchRatings, Franklin Santarelli, Senior Director and lead analyst for CAF, November 22, 2010

Moody's, Steven Hess, Senior Credit Officer and lead analyst for World Bank, August 13, 2012

Former ratings agency analyst who has covered all three MDBs, August 20, 2012, anonymity requested

Annex Table A1: Variable Description and Sources

Variable Name	Description	Source
World Bank lending	Annual World Bank sovereign lending commitments in each fiscal year, in millions of const. 2007 US\$. In the single case of Bolivia, this variable includes a limited amount of IDA lending. No other country received IDA lending during the period under review.	World Bank, 1990-2010
IADB lending	Annual IADB sovereign lending commitments in each fiscal year, in millions of const. 2007 US\$. Includes both non-concessional (OC) and concessional (FSO) loans, although OC lending is much higher in all countries except Bolivia for the entire period.	IADB, 1990-2010
CAF lending	Annual CAF sovereign lending commitments in each fiscal year, in millions of const. 2007 US\$.	CAF, 1990-2010; CAF 2009a for sovereign vs. non-sovereign split in the early part of the period
Year	1991, ...,2010 (linear trend)	
Investor ranking	Ranking on the semi-annual Institutional Investor index of investor sentiment.	Institutional Investor, 1990-2010
Reserves (% of ext. debt)	Total international reserves (minus gold) as % of public and publicly guaranteed external debt service.	World Bank, 2012c
GDP per capita	GDP per capita in 2007 international \$, PPP	World Bank, 2012b
Global crisis	Dummy = 1 for the years 1998/99 (Asia, Russia and Brazil capital markets crises) and 2009 (global financial crisis)	
UN voting with US	Number of votes in the UN General Assembly designated as important by the US State Department in support of the US position, plus ½ the number of abstentions, divided by the total number of votes in the UN General Assembly designated as important by the US State Department. This follows the methodology of Thacker, 1999.	Database of votes provided by Dreher for 1983-2008, as used in the papers by Dreher et al. 2009a and 2009b; US State Department 2010 for 2009 data
Inflation (%)	Inflation in annual % (national consumer price index)	World Bank, 2012b
IMF lending (mio)	IMF disbursements in calendar year, 2007 US\$	World Bank, 2012c
Population (mio)	Absolute numbers	World Bank, 2012b

Annex 2: Alternative Regression Specifications

In the context of our research question, the choice of the correct econometric model is not obvious. Since lending is a censored variable (no values below zero), as opposed to the linear model presented in the main body of the text, a tobit model might have been a natural choice. Since the tobit model may not be valid if there is a large jump between zero and the smallest positive values, we prefer a per capita specification (USD per capita) of the dependent variable (as opposed to absolute volume). Regression (1) in Table A2 below presents the standard panel tobit model. Unfortunately, this specification uses random rather (RE) than fixed effects (FE), because the fixed effects in non-linear panel models tend to generate bias (incidental parameters problem). Greene (2004), however, shows that in the case of tobit (rather than probit), the bias mainly affects the variance (and terms that are calculated using the variance, such as the marginal effects on expected lending), but not the coefficient estimates themselves. He further argues that omitting the FE may lead to much greater bias. In our case, we know from the Hausman test on the linear specification, that the inclusion of country specific effects (here: country×bank specific effects, i.e., country FE that may also vary between the three banks) is indeed highly relevant to avoid bias (see also endnote 16). We thus add a tobit regression with FE (Regression 2). For both tobit regressions, we present the coefficient estimates, i.e. the marginal effects on the latent variable, rather than the marginal effects on expected lending. This avoids bias in Regression 2 and makes the results comparable between regressions. In addition, it facilitates the interpretation of the interaction terms. In any case, we believe that the latent variable in these models, interpreted as the willingness to borrow, is a rather meaningful concept.

The problem remains that in Regression 2 variances, and thus standard errors and p-values are biased downward. However, anyway, only about 7% of the observations (22 out of 300) are effectively censored (i.e., =0), so that, first, the tobit FE-model should not be too different from a linear FE-model (so that the bias should not be very strong), and second, directly going for a linear RE-model may be a good alternative.

Regression 3 thus presents a simple panel FE-model corresponding largely to the model presented in Section 5. The difference is that in this annex, the dependent variable is always specified in per capita terms, and the three banks are taken together in a single lending regression identifying the differences between banks through interaction effects rather than through Wald tests across SURE regressions. Regression 4 further varies the specification of the model by using logs rather than the direct value of the variables (for all variables except the linear trend (year) and the global crisis dummy).

The presentation of the regressions in Table A2 should be read as follows: The upper part of all regressions show coefficient estimates for the World Bank (comparable to column 1 in Table 4, Section 4). The second part of the regressions includes all variables again, but interacted with a dummy variable for the IADB. The resulting coefficient estimates correspond to the additional effect for the IADB and shows whether this additional effect is significant (corresponding to column 4 in Table 4, Section 4). Finally, the third part of the regressions includes coefficients for the interaction terms of all variables with a dummy for the CAF and can be interpreted in analogy to the interaction effects with the IADB dummy. (The last part corresponds to column 5 in Table 4, Section 4.)

Annex Table A2: Four Alternative Regression Specifications (All MDBs Combined)¹

Specification	(1) Tobit ² , RE	(2) Tobit ² , FE	(3) Linear FE regression	(4) Linear FE, variables in logs ²
Dependent variable	Lending per capita	Lending per capita	Lending per capita	Lending per capita
Year	0.295 (0.196)	-1.534** (0.031)	-1.382** (0.044)	0.167 (0.424)
Investor ranking	-0.221 (0.304)	-0.687** (0.026)	-0.629** (0.037)	-1.855** (0.027)
Reserves (% ext. debt)	0.064 (0.873)	0.120 (0.783)	0.171 (0.674)	0.252 (0.280)
GDP per capita	-0.002** (0.028)	0.010*** (0.003)	0.007** (0.012)	3.285 (0.177)
Global crisis	-5.464 (0.147)	-5.276 (0.135)	-3.596 (0.307)	-0.242 (0.367)
UN voting with US (share)	51.623*** (0.000)	26.685* (0.063)	16.264 (0.221)	1.663 (0.108)
Inflation (%)	-0.005 (0.124)	-0.006* (0.058)	-0.003** (0.041)	-0.443*** (0.005)
IMF lending (mio USD)	0.001 (0.818)	0.002 (0.613)	0.001 (0.747)	0.053 (0.283)
Population (mio)	0.520*** (0.004)	2.099* (0.079)	2.458** (0.039)	-14.427 (0.210)
Year × IADB	0.012** (0.030)	0.265 (0.785)	0.082 (0.932)	-0.118 (0.689)
Investor ranking × IADB	0.052 (0.853)	0.197 (0.642)	0.136 (0.748)	0.278 (0.814)
Reserves × IADB	-0.113 (0.834)	-0.179 (0.761)	-0.229 (0.690)	-0.054 (0.871)
GDP per capita × IADB	0.001 (0.160)	-0.002 (0.649)	0.001 (0.754)	1.252 (0.715)
Global crisis × IADB	9.947* (0.054)	10.237** (0.037)	8.519* (0.088)	0.609 (0.110)
UN voting with US × IADB	-40.829*** (0.001)	-38.442** (0.046)	-28.840 (0.125)	-3.003** (0.040)
Inflation × IADB	0.008** (0.025)	0.008** (0.020)	0.006** (0.017)	0.237 (0.279)
IMF lending × IADB	-0.001 (0.893)	-0.001 (0.781)	-0.001 (0.878)	-0.048 (0.492)
Population × IADB	-0.406* (0.098)	-0.706 (0.670)	-1.032 (0.537)	6.384 (0.694)
Year × CAF	0.026*** (0.000)	3.699*** (0.000)	3.456*** (0.000)	-0.211 (0.475)
Investor ranking × CAF	0.767*** (0.007)	1.141*** (0.007)	1.086** (0.011)	3.546*** (0.003)
Reserves × CAF	-0.448 (0.408)	-0.327 (0.578)	-0.378 (0.511)	-0.496 (0.133)
GDP per capita × CAF	0.001 (0.439)	-0.014*** (0.002)	-0.010*** (0.010)	-4.889 (0.155)
Global crisis × CAF	1.571 (0.761)	-1.457 (0.767)	-3.185 (0.522)	-0.219 (0.565)
UN voting with US × CAF	-81.973*** (0.000)	-27.423 (0.155)	-17.852 (0.342)	-1.223 (0.402)
Inflation × CAF	0.006 (0.101)	0.008** (0.025)	0.005** (0.026)	0.699*** (0.002)
IMF lending × CAF	-0.006 (0.312)	-0.003 (0.286)	-0.006 (0.599)	-0.114 (0.103)
Population × CAF	-1.476*** (0.000)	-4.758*** (0.004)	-5.000*** (0.003)	22.318 (0.170)

Table A2 continued

Observations	300	300	300	300
Number of groups	15	15	15	15
R ² (within)			0.283	0.303
Left censored observations	22	22		
Wald test	chi ² (27)=143 0.00	chi ² (41)=220 0.00		

¹ P-values in parentheses (***) $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. FE (or constant) not shown. IADB and CAF are indicator variables for the respective banks. All fixed effects (FE) and random effects (RE) are at the bank \times country level. All variables except year are included with a one-year lag.

² For tobit regressions the coefficients rather than the marginal effects on $E(y)$ are shown. They represent the marginal effect for the latent variable and are generally consistent in tobit FE-regressions (specification 2), despite the incidental parameter problem. However, the standard errors may be biased downward in this case (Greene 2004).

³ All variables are in logs except the global crisis dummy and the linear trend variable (year). For variables (x) with values of zero, we took $\ln(1+x)$. For inflation we add 1.2 to compensate for a slightly negative value.

The comparison between Regressions 1 and 2 shows considerable differences in coefficient estimates notably with respect to the effects of the time trend and the economic variables – effects that seem to be reversed. As discussed above, while p-values may be questionable, the coefficient estimates should be unbiased in Regression 2. This confirms the importance of the FE and suggests that Regression 1 is severely biased. While the coefficient for GDP per capita in Regression 1 points in the expected direction, this is an artifact of omitted country specific effects, and cannot be reproduced in the other (more reliable) specifications.

Regressions 2 and 3 generally confirm the results from the SURE regressions. While coefficients appear considerably smaller, this is due to the specification of the dependent variable in per capita terms. As before, the linear trend and improvements in the investors' ranking are associated with a significant reduction in World Bank lending. The situation is not significantly different for World Bank lending, while it is (and strongly significantly so) for the CAF. The global crisis variable is not significant for the World Bank and the CAF, but the effect on the IADB is significantly different and points in the opposite direction. Results for control variables also look quite similar (with the

exception of the population, which, of course, has a different meaning here, since the dependent variable is itself measured per capita). Only the UN voting variable loses its significance in Regression 3.

Regression 4 finally, shows coefficients that reflect elasticities. Regarding the control variable for UN voting, at least the difference to the IADB again becomes significant (as compared to Regression 3). However, one of our key explanatory variables, namely the trend variable, loses significance. We suggest that this might simply indicate that the trend we observe is indeed best approximated by a linear relationship, rather than by a relationship between years and log lending. Otherwise, the results are similar to those in Regressions 2 and 3, i.e., they are also broadly in line with the SURE regressions presented in Section 4.

Annex Table A5: MDBs by Type of Shareholder Arrangement

Type	MDB	Votes by non-borrowing shareholders (in %)	Non-concessional loans (2008) (in US\$ billion)
Non-borrower dominant	World Bank	65.7	13.5
	Asian Development Bank	65.2	8.4
Non-borrower predominant	IADB	49.9	11.1
	African Development Bank	39.7	2.8
	Banco Centroamericano de Integración Económica	41.0	1.4
	Caribbean Development Bank	35.9	0.297
Borrower dominant	CAF	3.1	7.9
	Islamic Development Bank	0.0	7.2
	East Africa Development Bank	14.1	0.031

Sources: World Bank 2009a, Asian Development Bank 2009, IADB 2009, African Development Bank 2009, Banco Centroamericano de Integración Económica 2009, Caribbean Development Bank 2009, CAF 2009a, Islamic Development Bank 2009, and East Africa Development Bank 2009.

Note: This table does not include MDBs that lend primarily to the private sector, such as the EBRD and EIB. The latter must be expected to follow dynamics that differ from those addressed in the theoretical part of this paper.

TABLES AND FIGURES

Table 1: Loan Approval Procedures and Times

	World Bank	IADB	CAF
Approval Time	12-16 months	7-10 months (2007-2009)	3-6 months; 1.5 if urgent
# of Missions	<ul style="list-style-type: none"> • Identification • Pre-appraisal • Appraisal • Negotiation 	<ul style="list-style-type: none"> • Identification • Appraisal • Negotiations (often VC) 	<ul style="list-style-type: none"> • Identification/appraisal • Negotiations (often VC)
# of Review Phases	<ul style="list-style-type: none"> • Concept • Quality Enhance • Decision • Board 	<ul style="list-style-type: none"> • Eligibility (often virtual) • Quality/risk (often virtual) • Operations • Board 	<ul style="list-style-type: none"> • Business Committee • Loan and Invest Committee • Board (for larger loans)
Caveats	Decision meeting can be skipped for low-risk invest loans since 2009 (but rare due to risk-averse staff)	<ul style="list-style-type: none"> • Missions faster than WB (example: negotiations ½ day vs. 2-3 days) • Shorter project documents and reading time before meetings than WB 	<ul style="list-style-type: none"> • Missions faster than either IADB or WB • Loans below US\$20 mln approved by operations VP • Loans below US\$75 mln approved by president • Non-resident board meets 3-4 times/year; can approve loans by email

Source: World Bank 2012a; IADB 2011d and 2012b; staff interviews.

Table 2. Comparison of Environmental and Resettlement Safeguards

	World Bank	IADB	CAF
Environmental Safeguards			
Experts	Independent experts for assessments and advisory panels	No stipulation; advisory panel not required	National systems
Consultations	Includes NGOs	Only “affected parties”	National systems
Bureaucracy	Separate regional safeguard team (often conflicts with project team)	Project team only, no separate specialists	National systems
Resettlement Safeguard			
Trigger	Caused by or related to project	Only directly caused by project	National systems
Consultations	Required	“Where possible”	National systems
Dispute resolution	3 rd party mechanism required	Not required	National systems
Resettlement type	Land-based resettlement preferred for those with land-based livelihood	“Appropriate” resettlement	National systems
Bureaucracy	Social Development Unit, Resettlement Committee, Legal	Project team only, no separate resettlement specialists	National systems
Project completion	Not until resettlement completed	No requirement	National systems

Source: World Bank 1999a, 1999b, 2001c, 2001d; IADB 1998, 1999, 2006 and 2007; CAF 2007.

Table 3: Variables and Expected Impact: Demand Versus Supply

Variable	Demand-side interpretation	Supply-side interpretation
Year (linear trend capturing general economic development)	Countries become economically and financially more self-reliant and have less need for funding from development banks. Because of the differences in bureaucratic hassle factor (World Bank most, CAF least, IADB between), the World Bank should be clearly on a negative trend (-), the CAF positive (+); IADB in between (+/-).	Countries become safer borrowers. This increases the willingness to lend for all banks, or at the least maintains steady trends due to need to generate loan income based on MDB financial model. → expected coefficient: + or flat [An alternative interpretation that would predict the opposite sign suggests that MDBs may prefer to supply to economically needy countries. However, substantial evidence from documents and interviews clearly contradicts this view (see also Knack et al. 2012, p. 171), particularly in middle-income countries such as those in the sample]
Investor ranking (financial situation as perceived by investors)	As above.	As above.
Reserves (% ext. debt) (debt sustainability)	As above.	As above.
GDP per capita (economic situation)	As above.	As above.
Global crisis (global financial downturn)	Countries have greater demand for MDB loans due to tight international capital markets. However, CAF lending becomes more expensive as compared to IADB and World Bank lending because of a greater difference in funding costs in a crisis. Thus, World Bank and IADB lending should go up (+), CAF lending should go up less or decrease (+/-).	Banks attempt to stabilize the financial situation. However, since the crises are global, the World Bank as a global bank may have other priorities than lending to Latin America. In this case the coefficient for the World Bank might not be clear (+/-). CAF also unclear (+/-) because it may face restrictions in access to capital markets because of its lower rating, and hence may be forced to restrict loan supply; IADB lending should increase (+) as it has a regional role to fulfill and should not be restricted by capital markets due to AAA rating.
UN voting with US (political closeness to US)	Banks are more attractive lenders for countries that share their main policy orientation. Expected coefficient for World Bank (+), for CAF (-) and for IADB in between (+/-).	Borrowers are more attractive for banks that share their main policy orientation. Expected coefficient for World Bank (+), for CAF (-) and for IADB in between (+/-).
Inflation (%) (bad economic governance from World Bank perspective)	Governments with high inflation rates will avoid the World Bank, which would interfere with their economic policy choices. The same might be true for the IADB, but is certainly not true for the CAF. Expected coefficient for World Bank (-), while for CAF lending should not be affected (+/-). IADB in between (+/-).	World Bank will lend less to governments with high inflation rates, which indicate non-orthodox economic policies. The same might be true for the IADB, but is certainly not true for the CAF. Expected coefficient for World Bank (-), while for CAF lending should not be affected (+/-). IADB in between (+/-).
IMF lending	IMF lending could reflect situations of greater need, but also the existence of alternative funding to satisfy given needs. Expected effect unclear.	IMF lending could reflect situations of greater need, but also the existence of alternative funding to satisfy given needs. Expected effect unclear.
Population	Higher number of inhabitants increases the demand for funding. Expected effect (+)	Higher number of inhabitants increases the supply of funding as a response to need, but also because large countries are typically politically important. Expected effect (+)

Table 4: Determinants of Lending and Differences Between MDBs, 1991-2010

Coefficients for	(1)	(2)	(3)	(2) - (1)	(3) - (1)	(3) - (2)
	World Bank lending (mio USD)	IADB lending (mio USD)	CAF lending (mio USD)	Difference IADB-World Bank	Difference CAF-World Bank	Difference CAF-IADB
Method: SURE						
Year	-10.88 (0.19)	-21.13* (0.09)	20.38** (0.05)	-10.25 (0.30)	31.26** (0.02)	41.51*** (0.00)
Investor ranking	-19.87* (0.10)	-12.89** (0.04)	7.62*** (0.00)	6.98 (0.32)	27.49** (0.02)	20.51*** (0.00)
Reserves (% ext. debt)	7.90* (0.09)	1.00 (0.81)	-5.56** (0.03)	-6.90** (0.01)	-13.45** (0.02)	-6.56 (0.15)
GDP per capita	0.19* (0.06)	0.18*** (0.00)	-0.04 (0.26)	-0.01 (0.47)	-0.23*** (0.00)	-0.22*** (0.00)
Global crisis	-167.08** (0.02)	113.83* (0.09)	-119.89*** (0.00)	280.92*** (0.01)	47.19 (0.25)	-233.72*** (0.00)
UN voting with US (share)	672.17*** (0.01)	-177.64 (0.67)	-44.91 (0.87)	-849.81* (0.05)	-717.09** (0.04)	132.72 (0.37)
Inflation (%)	-0.07*** (0.00)	0.05*** (0.00)	0.03*** (0.00)	0.12*** (0.00)	0.10*** (0.00)	-0.02*** (0.01)
IMF lending (mio USD)	0.04 (0.50)	0.04 (0.54)	-0.04 (0.55)	0.00 (0.49)	-0.08 (0.25)	-0.08*** (0.00)
Population (mio)	57.72** (0.02)	50.11*** (0.00)	11.79 (0.26)	-7.62 (0.39)	-45.94** (0.03)	-38.32** (0.01)

Notes: Robust p-values in parentheses. For differences, they are calculated testing one-sided hypotheses using Wald tests (***) $p < 0.01$, ** $p < 0.05$, * $p < 0.1$). Country fixed effects are included but not shown. All right-hand-side variables except "Year" are lagged by one year. There are 100 observations (5 countries x 20 years) in each regression. R^2 (within) for each of the regressions individually is 25%(1), 15%(2) 45%(3).

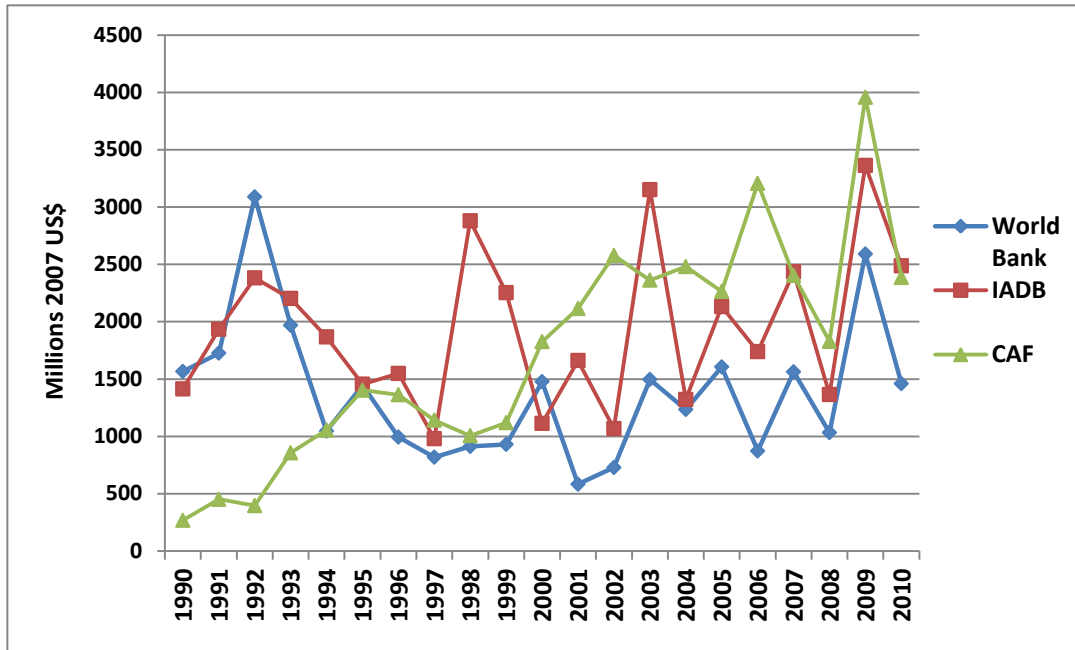


Figure 1: Annual Lending Commitments by World Bank, IADB and CAF to Five Latin American Countries, 1990-2010

Source: Annual Reports of World Bank, IADB and CAF, 1980-2009.

Note: Five countries are Bolivia, Colombia, Ecuador, Peru and Venezuela.

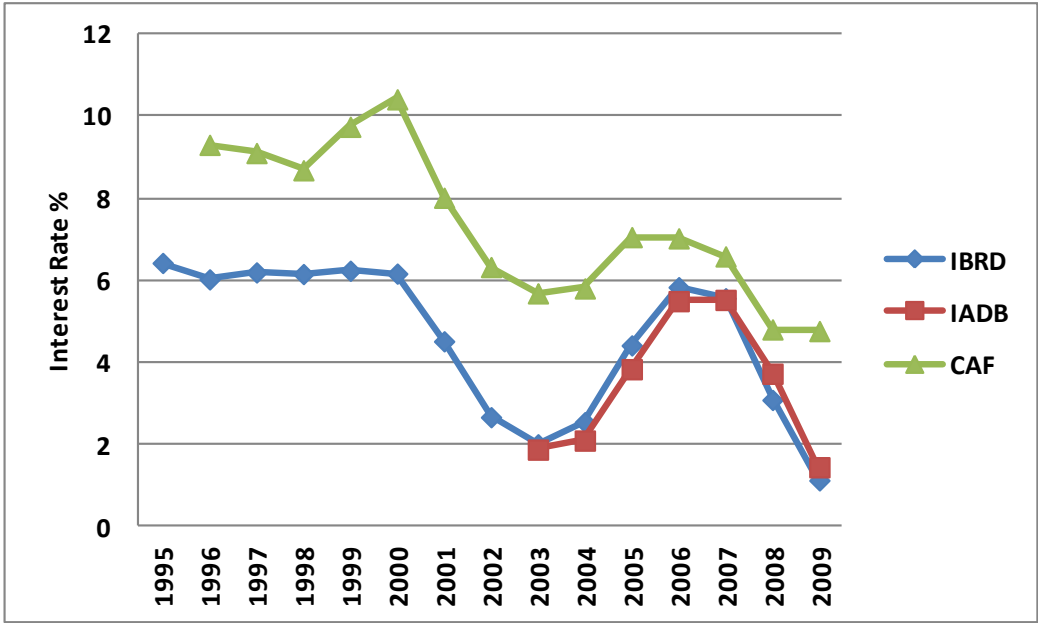


Figure 2. Interest Rates of Libor-based Loans (All-in Cost)

Source: Methodology for annualizing fee costs taken from World Bank 2010c. Loan interest rate sources: World Bank, 2011b; IADB, 2011a; and CAF, 2009b. Fee sources: World Bank, 2007b; World Bank, 2011c; IADB 2011b; and CAF 2009b.

Notes: “All-in Cost” includes front-end and commitment fees annualized over the life of the loan, as well as a standardized disbursement and repayment profile that is not exact. The methodology is the same used by the World Bank Treasury department to compare IBRD loan costs with other MDBs. A complete, comparable time series of loan prices could not be constructed for all three MDBs because the loan instruments offered have changed over time.