Summary: The Multilateral Development Banks

FY 2002 Appropriation	FY2003 Scheduled Request	FY 2003 Arrears Request	FY2003 Total Request
$1,174.8M	$1,259.4M	$177.7M	$1,437.1M

Our FY2003 budget request covers the World Bank Group, five regional development banks, the Global Environment Facility (GEF) and the International Fund for Agricultural Development (IFAD). The World Bank Group is comprised of the International Bank for Reconstruction and Development (IBRD), the International Development Association, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The five regional development banks include: the Inter-American Development Bank Group (IDB), the Asian Development Bank Group (AsDB), the African Development Bank Group (AfDB), the European Bank for Reconstruction and Development (EBRD), and the North American Development Bank (NADBank). IFAD is a specialized agency of the United Nations. Collectively, we refer to the above system as the multilateral development banks (MDBs).

The MDBs are at the heart of the global network of multilateral institutions whose core mandate is to promote economic development, productivity growth and poverty reduction. Through lending programs and policy advice, these institutions help countries to build market economies and promote private sector-led development.

The World Bank Group and most of the regional development banks operate both a *hard loan window* and a *soft loan window*. The hard loan windows provide loans at market-based rates to lower and middle-income countries. Developed countries, such as the United States, provide the bulk of the capital base needed to support these loans, enabling the MDBs to access the international capital markets on preferred terms. Soft loan windows, in contrast, provide loans on a concessional basis (30-40 year maturities and very low interest rates) to the poorer countries. Funding for soft loans is provided by donor countries, including the United States, through periodic replenishments, as well as through both repayments of prior loans and use of the institution's own income earnings. In both hard and soft loan operations, the multilateral ownership of the institutions and their direct access to capital markets means that U.S. participation is highly leveraged in terms of the amount of development it supports.

The MDBs also lend to the private sector. The World Bank Group and the Inter-American Development Bank Group affiliates (MIF, MIGA, and IIC) provide loans and equity investments exclusively to private-sector projects in developing countries where risks are too high for the private sector to be the sole source of financing. Generally, these investments provide only a portion of the necessary financing and act as an inducement for substantial cofinancing by private investors. Other MDBs, such as the EBRD, have major private sector operations. The EBRD, in particular, has been committing nearly 80% of its financing to private sector projects in recent years.

Key Facts

- In 2001, MDBs lent over $44 billion; the United States provided $1.1 billion in new funding. By comparison, U.S. bilateral economic assistance totaled $7.8 billion in FY2001.

  - Overall MDB lending in 2001 was more than $3 billion higher than in 2000, due in large part to increased non-concessional lending by the World Bank and the regional development banks for physical infrastructure projects and human capital development.

- In 2000, MDB-approved operations produced $3.6 billion in business benefits to the U.S., including estimated exports, contracts for goods of U.S. origin, and technical assistance consulting contracts.

- During IDA-12 (July 1999-June 2002), Sub-Saharan African countries received 37% of IDA lending.

- The MDBs are increasingly active in key policy areas of high priority to the United States, including private sector development, productivity growth, poverty reduction, trade and investment reform, good governance, sound environmental practices, and the advancement of core labor standards.

- At the end of FY1997, U.S. arrears to the MDBs totaled $862 million, but by end FY1999 were reduced to $335.3 million. Underfunding between FY2000 and FY2002 pushed arrears back up to $533.2 million by end-FY2002. For FY2003, we are requesting $1.26 billion to fund our scheduled commitments to these institutions. We are also seeking $177.7 million for elimination of one-third of outstanding arrears to the MDBs as part of a three year program to clear U.S. arrears to the MDBs. In order to avoid any further increases in our arrears to these institutions, it is important that our request be fully funded.