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Development Finance in the BRIC Countries

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Multilateral development banks in BRICs

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Introduction

In recent years, BRIC countries have demonstrated high rates of economic growth, rapid increases in GDP per capita and growing capital accumulation, and have been playing an increasingly important role in the global economy. However, as middle-income countries (low-income in the case of India), BRICs still rely on development finance. Multilateral development banks (MDBs) have become an important source of external long-term capital available to BRICs.

The objective of this paper is to examine the role of multilateral development banks in BRICs and to take a look at the banks' operations as well as problems related to MDBs' performance in BRIC countries.

A brief note about the organization of this paper. The First Section contains an overview of the specific features of multilateral development banks as an instrument of development finance. Section Two looks at the current membership of BRICs in multilateral development banks. The Third Section reviews MDBs' approach towards access of BRICs to their concessional lending and ordinary capital resources and discovers the graduation policy of development banks. Section Four section provides an analysis of current trends of development finance by MDBs. The Fifth Section discusses a wide range of questions dealing with analysis of MDB loans distribution by sector, development effects of operations and problems of loan commitments in BRICs. The Sixth and final section considers policy implications for China.

1. Multilateral development banks as an instrument of development finance

The realm of multilateral development banks (MDBs) comprises international development banks (the World Bank Group), regional development banks (the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development) and sub-regional development banks that aim to promote economic integration in specific geographic zones (the European Investment Bank, the Nordic Investment Bank, the Andean Development Corporation, the Eurasian Development Bank, the Central American Bank for Economic Integration, and others).

Multilateral development banks play an important complementary role in development finance. Using different capital-raising instruments (loans, bonds, deposits, donor contributions), they accumulate resources to finance development of borrowing member states. Multilaterals provide long-term loans, grants, guarantees, equity investments, technical assistance to promote economic and social development. MDBs also aim to finance regional public goods (building regional infrastructure, increasing regional industry competitiveness, supporting environmental projects, etc.).

Due to MDBs' status and organization structure, multilateral development institutions grant them significant advantages over commercial banks and other private investors.

- International, regional and some sub-regional banks allow developed countries to join (including countries outside the relevant region) to ensure high credit ratings and access to capital on favorable terms on international financial markets.
- MDBs as non profit organizations are able to finance large-scale projects which are difficult to handle and which also may not be attractive for commercial banks because of their low ROI.
- Multilaterals mostly lend directly to governments and provide finance to cover government spending. Multilateral development institutions primarily require sovereign guarantees to reduce credit risk.

- MDBs as international institutions are not subject to national law requirements of member countries, i.e. banking regulation, tax codes, etc. Therefore, they are not required to pay most of the taxes normally levied on for-profit organizations.

- Membership in MDBs does not come at a high cost to shareholders. The reason is that the subscribed capital of MDB does not have to be fully paid by the member states. Shareholders guarantee that the remaining unpaid-up capital (callable capital) will be made available on the request of the bank.

- MDBs also provide a forum for coordination of policy towards borrowers and collect information and research that can be useful for investors undertaking new investments in a borrowing member country (Ratha, 2001).

However, multilaterals do not aim to take over a niche served by private investors, and they follow the additionality principle, complementing, rather than substituting for, government investments or capital raised on favorable terms from third parties. Furthermore, the cost-sharing mode of project financing by multilateral banks allows for a more effective mobilization of public and private capital in both developed and developing countries.

Financial mechanisms of MDBs are beneficial for borrowing member countries. MDBs respond to rising demand for capital in those developing countries that have limited access to international financial markets. Some MDBs organize soft-loan funds which allow the poorest countries to borrow at low interest rates.

MDBs' policy towards developing countries has changed in order to meet their demand for financial resources. Initially, MDBs started with quite different policy objectives, but over time these differences among them have narrowed (Culpeper, 1994). International and regional development banks significantly widened operations financing social development, infrastructure and policy-based projects, institution and industry modernization, structural adjustment, poverty reduction, etc. Oil, debt and financial crises of the last decades made it necessary to elaborate special emergency facilities for borrowing member countries to offset the outflow of private capital during financial instability and provide structural adjustment programs.

Multilaterals act mostly worldwide and increase distribution of financial resources both to developed and developing countries. In the last decades not only did they expand their loan portfolio, but also became a significant lending window for borrowing member countries. The

EBRD became the largest institutional investor in the Commonwealth of Independent States, the World Bank and AsDB along with the Japanese Government were the main donors in Asia-Pacific. Cumulative lending of eleven MDBs reached nearly USD 1.3 trillion as of year-end 2006 (Abalkina, 2007). In the last decades, multilateral development institutions have been quite active as distributors of financial resources to developing countries and also to the poorer countries via concessional funds. By the early 1990s, nearly 50% of total official development finance was provided by multilateral lending facilities (A Foresight and Policy Study of the Multilateral Development Banks, 2000).

2. BRICs membership in MDBs

BRIC countries have different level of participation in multilateral development banks. First, all BRIC countries have a borrowing member status with at least two MDBs: the World Bank Group and their respective regional bank. Their MDB membership is linked to their shortage of financial resources for development. Second, People's Republic of China and the Soviet Union refrained from utilization of international and regional MDB financial support during the Communist era. Their transition to the market economy led to their membership in various international organizations including multilateral banks. Third, their engagement in regional integration processes financed by sub-regional development banks also explains their membership status in corresponding MDBs.

BRIC countries' development of the last decade has demonstrated strong economic growth, increasing capital inflows, accumulation of monetary reserves. Favorable economic trends allowed BRICs to be more prominent on international financial markets. Gradually they are increasing public and private outward investments and become an important source of aid to other developing countries. Concessional loans granted by China, Brazil and India reached USD 3.5 billion in 2006 (Global Development Finance, 2008). Improvements in creditworthiness of BRIC countries increased their ability to support MDBs (Fitch Ratings, 2007). During the last decades, most of BRICs achieved non-regional donor status in MDBs of Latin America and Africa. They use the intermediation of international funds and banks for foreign public investments to promote their interests on the global scene.

Brazil

Brazil joined the IBRD in 1946. In the first decades, its lending progressed slowly due to problems with macroeconomic domestic policy in Brazil (Culperer, 1997). During the 1950s and 1960s, the IBRD stopped its lending to Brazil on three different occasions for a combined period of nine years (in 1955-57, 1960-1964, 1969). Since the beginning of the 1970s, the country's co-operation with the IBRD restarted on a regular basis.

Brazil was one of the founders of the Inter-American development bank. The project of its foundation appeared at the end of the 19th century and was broadly discussed during the First International American Conference that was held in 1890. Latin American countries intended to promote cooperation in the Western Hemisphere and to tackle the problem of a lack of capital for development finance. The USA consistently rejected the proposal until 1959 – the year when the organization was officially inaugurated. During the interwar period, some Latin American countries carried out the idea of development banking by establishing national development institutions (*corporaciones de fomento*) that played the role of financial intermediates between international and local markets. In the meantime, Brazil founded a state bank for development purposes.

Regional integration processes in Latin America were accompanied by the foundation of several multilateral banks that financed the production of regional public goods (the Caribbean Development Bank, the Central American Bank for Economic Integration, the Andean Development Corporation). Brazil nowadays is a borrowing member of the Andean Development Corporation (CAF) and also is one of the biggest recipients despite of the fact that Brazil does not belong to the Andean Community. CAF was created to promote sustained development and regional integration in member countries. After reorganization of the Corporation that led to an increase in the subscribed capital and elaboration of new methods of investment policy, it became the most powerful sub-regional institution in Latin America. In September 2009, Brazil together with other Latin American countries signed an agreement to found the South Bank with USD 20 billion in authorized capital. This bank is intended to be an alternative lending window for Latin American countries to the IMF and the World Bank. The new development bank has not started its operations yet.

Brazil, like the other BRIC countries, is also developing cooperation with MDBs without membership in these organizations. Investment policy of some sub-regional MDBs allows

lending in non-member countries or countries outside their region. For example, the Nordic Investment Bank (NIB) supports projects not only in the countries of the Baltic region, but also those projects that involve Nordic suppliers. The NIB supports projects in the telecommunication sphere and infrastructure in large emerging markets, especially in BRICs.

Russia

The Soviet Union participated in Bretton Woods agreements, but abstained from membership in the IMF and the IBRD. The Soviet Union also took part in negotiations to establish the AsDB, but did not support the accepted voting principles and stayed away from further cooperation with the bank. The Soviet Union participated only in two multilateral development organizations. The Soviet Union founded two sub-regional financial institutions to promote cooperation among the socialist-bloc countries – the International Investment Bank (IIB) and the International Bank for Economic Co-operation (IBEC). The IBEC was designed to provide export loans to the member states of the Council for Mutual Economic Assistance (Comecon), while the IIB concentrated on providing medium- to long-term loans to finance capital construction. After the Comecon was abolished in 1991, the two banks reoriented their activity to promote cooperation in Eastern Europe, providing loans on market terms. As a successor of the Soviet Union, Russia is still a majority shareholder of the banks and owns more than 50% of the banks' subscribed capital.

After the breakdown of the socialist system and the collapse of the Soviet Union, Russia started its transition to a market economy, and initiated integration into international markets. The transformation crisis of the 1990s forced Russia to search for external sources of finance to reduce its budget deficit, increase international reserves and stabilize the economy. International financial organizations (the IBRD, the IMF, the EBRD) which Russia joined in the early 1990s became a significant channel for raising capital.

Nowadays Russia has borrowing member status in several sub-regional development banks founded after the collapse of the Soviet Union. Reintegration of the Former Soviet Union (FSU) countries led to foundation of the Interstate Bank of the Commonwealth of Independent States in 1993, which was established to promote economic interaction in the post-Soviet area (the FSU) and to make payments using national currencies of the member states after liquidation of the Ruble zone. Today Russia owns 50% of the bank's authorized capital. Due to

weak performance of the Interstate Bank, Russia together with Kazakhstan inaugurated the Eurasian Development Bank in 2006. The bank's mission is to promote economic growth and collaboration in member states (Armenia and Tajikistan have recently joined the bank). Russia was a founding shareholder (17.1% of the initial capital) in The Black Sea Trade and Development Bank (BSTDB) which started operations in 1999. The BSTDB aims to support economic development and cooperation in the Black Sea region, providing trade and project finance.

Russia has also become a borrower from the European Investment Bank and the Nordic Investment Bank without attaining membership in these organizations. The lending policy of the EIB allows it to disburse 5% of its loans to non-member countries, and the bank is currently involved in several projects in north-western Russia (including construction of a waste water treatment plant and a flood protection barrier in St. Petersburg). The NIB finances environmental programs in Russia's Baltic region and also supports projects that presume involvement of Nordic suppliers (especially in the telecommunications sector).

Unlike the other BRIC countries, Russia does not have a donor member status in many MDBs of other regions. Russia makes contributions only to the International Development Association. However, currently Russia is in accession talks with the IADB and the AsDB. Membership in these regional development banks will allow Russian companies to participate in projects in Latin America and Asia.

India

India was one of the founding members of the IBRD and has benefited from the bank's development assistance. In the first decades, the impact of IBRD loans on India's development was quite limited due its weak creditworthiness (Mason, Asher, 1973). After the IDA was established in 1960, India mostly switched to concessional borrowing and nowadays is its largest borrower according to accumulated disbursed loan commitments.

In 1958, the World Bank established the Aid-to-India Consortium consisting of the World Bank group and thirteen developed countries. Its activity focused on selecting priorities for foreign aid for India and helping the country to get access to financial facilities for development. The World Bank together with other members of the consortium coordinated the distribution of

aid by sectors. Developed countries provided assistance to India on a bilateral basis but in accordance with priorities worked out by the consortium.

The history of India's cooperation with the AsDB dates back to 1966 when the organization was officially inaugurated. After establishment of the Asian Development Fund in 1974, India got access to concessional lending which was limited in the late 1990s by the mandate of the main donors, although economic indices of India attest to the country's compliance with the terms and conditions of soft-loan funds.

For promotion of regional integration in South Asia, SAARC members founded the South Asian Development Fund in 1996. It provides assistance to projects of regional significance in the following areas: industrial and social development, poverty reduction, environmental protection and infrastructure. In fact, the Fund acts more as a coordinator of development programs than an accumulator of financial resources. The fund collects public contributions of SAARC member states and does not raise capital on international financial markets as other multilateral banks do.

In 2008, SAARC countries launched a new SAARC development fund with an initial capital of USD 300 million. Given its larger capital, it was not intended to raise additional capital from third parties. The Fund would just welcome funding from the multilateral donor agencies like the AsDB and the World Bank.

India, along with the other BRIC countries, has been expanding its donor membership in development organizations. India has joined two development institutions in Africa getting non-regional member status (the AfDB and the West African Development Bank). Its cooperation with these institutions is currently connected with the operations of the Export-Import Bank of India which sponsored the first India-Africa Partnership Project Conclave within the AfDB framework and made contributions to the WADB.

China

In the years before its transformation into a market economy started in 1978, China did not draw any benefits from multilateral development banks. China took part in the Bretton Woods Conference formally, joining both the IMF and the IBRD, but did not act as a borrower until China's representation on the Boards of the two agencies was shifted from Taipei to Beijing in 1980 (Bottelier, 2007). Bottelier (Bottelier, 2007) cites the following explanation by

Chinese leader Deng Xiaoping of why China needed to restart cooperation with the World Bank: *“We are very poor. We have lost touch with the world. We need the World Bank to catch up. We can do it without you, but we can do it quicker and better with you.”*

In 1985, People’s Republic of China signed a memorandum of understanding with the AsDB replacing Taiwan as a member of this organization. Collaboration of PRC with the World Bank and the AsDB was temporarily blocked after the June 4, 1989 incident in Tiananmen Square. Developed countries, which own a significant share of subscribed capital in these institutions, took sanctions against People’s Republic of China and agreed to stop lending. The only exception was made for projects aimed at promoting basic human needs. After the G7 summit in Houston in 1990, PRC was allowed to apply for MDBs lending to support environmental protection and economic policy reform (Sanford, 1997).

Strong economic growth and the increase in creditworthiness of People’s Republic of China during the past decades has influenced its collaboration with MDBs in two ways. First, under pressure from developed countries, China’s access to concessional lending of MDBs was restricted (see Section 3). Second, capital accumulation allowed China to play a more important role in global development finance. For this purpose, China joined several regional and sub-regional development banks in Africa and Latin America in recent years. Nowadays China is the main contributor to development finance among BRIC countries.

China acts as a donor in three African development institutions. Its participation in the African Development Bank (AfDB) dates back to 1985. China intends to promote economic development and poverty reduction in African states by organizing the China-Africa Development Fund and participating in the Multilateral Debt Relief Initiative. China has become the only non-regional member in the Eastern and Southern African Trade and Development Bank, and is represented in the West African Development Bank by a government credit institution (People’s Bank of China).

Latin American countries are also a focus of the Chinese strategy to provide development aid. China became a member of the Caribbean Development Bank and joined the Inter-American Development Bank in 2009 with the aim of funding several projects designed to address crisis-specific needs.

Moreover, China has founded several trust funds at organizations where it has a borrowing member’s status. For example, in 2005 China contributed USD 30 million to the Asian

Development Fund (ADF) and established a USD 20 million Regional Cooperation and Poverty Reduction Fund with the AsDB to boost economic cooperation among developing Asian countries as a component of poverty reduction agenda. China became the first developing member country to set up such a fund with an international development agency (AsDB, 2009).

Table 1

Current membership status of BRIC countries in MDBs (as of October 2009)

	Brazil	Russia	India	China
International				
International bank for reconstruction and development	B	B	B	B (since 2000)
International development association	D	D	B	B (till 1999)/D
International finance corporation	B	B	B	B
Regional				
Inter-American development bank	B	-	-	D
Asian development bank	-	-	B	B
African development bank	D	-	D	D
European bank for reconstruction and development	-	B	-	-
Sub-regional				
Nordic investment bank*	B	B	B	B
European investment bank*	-	B	-	-
Eurasian development bank	-	B	-	-
International Investment Bank	-	B	-	-
International Bank for Economic Co-operation	-	B	-	-
Black Sea Trade and Development Bank	-	B	-	-
Interstate bank of the CIS	-	B	-	-
South bank	B	-	-	-
Andean development corporation	B			
Caribbean development bank	-	-	-	D
West African development bank	-	-	D	D
Eastern and Southern African Trade and Development bank	-	-	-	D

* - status of a borrower without membership

B – borrower

D – donor

3. BRICs' Eligibility for access to lending windows

Multilateral development banks work out a graduation policy to determine the eligibility of aid recipients and their access to ordinary capital or concessional funds. Concessional loans are granted to poorer countries on a long term basis with a grace period and at low interest rates. Lending to poorer countries focuses mainly on promoting their socio-economic development and creating incentives for mobilization of private capital. Ordinary debt capital resources are distributed among comparatively more-developed countries on market terms. The guiding principles that define the lending window take into account the state of economic development, creditworthiness of the borrower nation, the country's access to international capital markets or its capacity to raise domestic capital on manageable terms (ADB, 1998).

For example, IDA eligibility criteria include relative poverty of a borrower (GNI per capita of less than USD 1,135 for the 2010 fiscal year) and weak creditworthiness. The AsDB classified borrowing countries into four groups according to debt repayment capacity and GNI per capita level. For both AsDB and AsDF, this graduation determines whether a borrower would have access to ordinary capital or soft funds only, or partial access to soft funds supplemented by access to ordinary capital. The operational cutoff for concessional lending is fixed at the same level as for IDA. The IADB also has a four-grade classification system that defines which one of the available lending channels should be used (ordinary capital, fund for special operations, intermediate financing facility). Unlike the other regional development banks, the EBRD provides financial resources only on market terms.

Among the BRIC countries, Russia is the only one to have always had its access limited to MDBs' hard window. At different times, all the other three BRICs used the benefit of both ordinary debt capital and concessional lending from international and regional MDBs. China stands out because it was originally eligible only to use the IDA window, and also got access to the IBRD window due to its development progress. Under pressure from donor countries, China was moved to IBRD lending-only status in 2000. The main reason for this lies in China's strong economic growth and its improving access to international capital markets. Despite the fact that its GNI per capita corresponded to IDA cutoff level, China could raise capital only on market terms. India currently has the status of a blend country for the purposes of the World Bank Group, a status that allows the country to have access both to hard and soft lending windows.

Table 2**Operational Policy of the World Bank**

	Country GNI per Capita, USD (2008)	Income Categories Lending	IBRD Repayment Terms		IDA Repayment Terms		
			Average repayment maturity (years)	Years to Maturity	Grace Period (years)	Years to maturity	Grant
Brazil	7,450	IBRD	18	30	-	-	-
Russia	9,680	IBRD	18	30	-	-	-
India	1,070	Blend	18	30	10	35	0%
China	2,940	IBRD	18	30	-	-	-

Source: The World Bank

According to the AsDB graduation policy, India and China are eligible for its ordinary capital lending resources and have limited access to the Asian Development Fund, which grants concessional loans. In fact, this status gives borrowing member countries the opportunity to receive loans at low interest rates only for specific projects. Given that both countries have adequate capabilities for debt repayment at market rates, as mandated by the donors, China and India have not had access to the AsDF since the late 1990s.

Brazil has been able to apply for loans from the Fund for Special Operations (part of the Inter-American Development Bank) since the Fund's establishment. Concessional lending is currently closed to Brazil, although the country is still repaying its commitments to the Inter-American Development Fund which account for 1,6% of total outstanding borrowings from the IADB group as of the end 2008 (IADB, 2009).

Operational policies of development banks also define the percentage of a project's total cost that can be financed by multilateral institutions, based on the relative development level of the borrower. The remainder of project financing has to come from local or international investors. For example, the IADB rates Brazil as an advanced economy among all the bank's loan recipients and provides up to 60% of the amount required to finance an eligible project. The least developed countries of Latin America can receive 90% of project financing from the bank. Cost-sharing policy of the World Bank applies to overall lending to a specific borrower

country rather than to individual projects and is set according to the country's per-capita income. India and China can receive up to 75% of total financing for eligible projects.

Table 3

Cost-sharing policy of MDBs

	Brazil	Russia	India	China
World Bank	60%	60%	75%	75%
IADB	60%	-	-	-
AsDB	-	-	60%	60%
EBRD	-	32%*	-	-

* Cumulative EBRD lending to Russia as a share of total eligible project value.

The AsDB fixes the cost-sharing ceiling on project basis according to the borrower country's access to ordinary or soft loan resources. After China and India became eligible only for hard window financing, the cap on project financing by the AsDB was lowered from 80% to 60%. The EBRD has no formal lending cap policy for the public sector. The EBRD, more than other MDBs, seeks co-financing from other international financial institutions (Asian Development Bank, 2002). Cumulative lending of the EBRD to Russia amounted only to 32% of the total eligible project value. However, cost-sharing practices of multilaterals reflect the fact that the banks' participation in project finance is much less than the fixed maximum level.

Multilaterals also design their lending policy to limit borrower concentration. According to the IBRD rules, its exposure to any country should not exceed 10% of its loan portfolio. India and China are currently quite close to this limit (at around 8% each). The Andean Development Corporation's charter does not allow it to disburse more than 30% of its total lending to any one country. The IADB does not limit the exposure to a single country. The IADB classifies all its borrowing members into two groups according to their GDP per capita. The first group comprises nine most advanced economies of the region (with Brazil as one of them), while the second includes all other member states with GDP per capita lower than USD 3,200. According to the IADB lending policy, not less than 35% of its total loan portfolio should be disbursed to Group Two countries.

Thus, the following conclusions can be drawn from observing the eligibility of BRICs for, and their access to, MDB funds. BRICs' strong economic growth have influenced their cooperation with MDBs in several ways. First, BRICs were limited with their access to concessional funds of MDBs. Disqualification of India from concessional lending is just a matter of time. Secondly, BRIC countries got donor status in some regional and sub-regional MDBs, but the extent of their membership differs from country to country. China has become the most active donor among BRICs so far, joining regional and sub-regional MDBs in Latin America and Africa.

4. Operations of MDBs in BRICs

Analysis of MDBs operations in BRICs covers mainly the activity of the World Bank group and regional development banks which play a prominent role among all multilateral development institutions in providing development finance to BRIC countries.

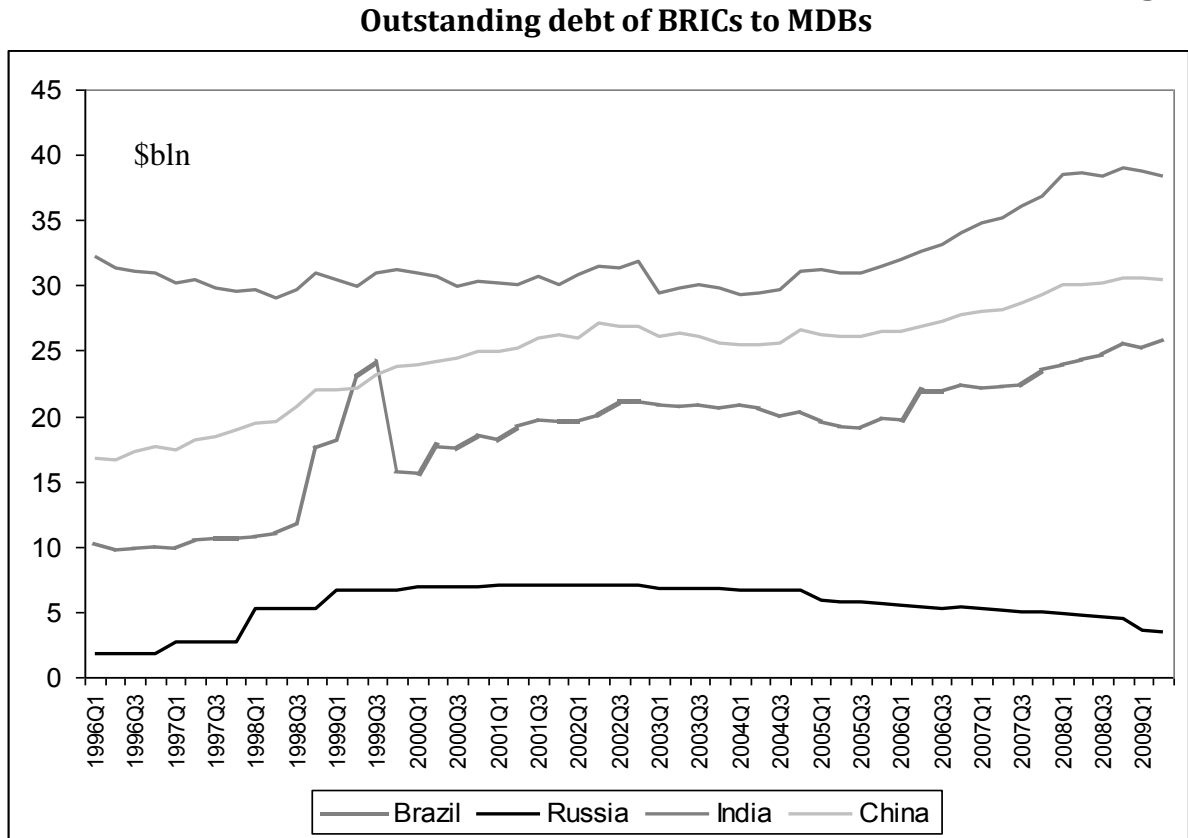
During the last decades, BRIC countries have increased borrowings from multilateral development banks. Since 1996, the outstanding loans of India and Brazil granted by MDBs, as shown in Figure 1, have nearly doubled to USD 38 and USD 26 billion, respectively, as of 1 July 2009. China's outstanding borrowings have exceeded USD 30 billion. Significant growth in transaction amounts in BRICs arises from their strong economic growth and rising demand for capital resources. In the meantime, MDBs considerably increased their loan portfolio over the 1990s and the 2000s, which has also enabled them to disburse more financial resources to BRICs.

The only exception is Russia, whose exposure to MDB lending has been in decline since the early 2000s. Figure 1 also notes Russia's relatively low level of public borrowings from MDBs in comparison with other BRIC countries. After the financial crisis of 1998, Russia revised its policy for external sovereign borrowing and borrowing from international financial organizations. Declining demand for loans from MDBs is explained by the new principles of Russia's external borrowing program that can be described as follows:

- Limiting, as much as possible, loan commitments to foreign states and international financial organizations for implementation of new projects financed by the federal government;
- Maximum attraction of loans to finance projects already in progress in order to complete these projects.

At the same time, Russia is increasing its private borrowings from multilateral banks which provide lending to private companies.

Figure 1



Outstanding debt of IBRD, IDA, IADB, AsDB.

Source: Joint BIS-IMF-OECD-WB External Debt Hub, Central bank of Russia.

Among MDBs, the World Bank represents the main source of development finance for BRICs, and had accumulated a loan portfolio to these countries amounting to USD 127.8 billion from the IBRD window and USD 46.1 billion from the IDA as of year-end 2008. Regional development banks are gradually catching up with the lending volumes of the World Bank. The IADB's total disbursements to Brazil that year reached USD 34.5 billion in comparison with IBRD loans of USD 42 billion. AsDB lending to India and China are at almost exactly the

same level – USD 20.6 and USD 21.0 billion, respectively. Russia’s exposure to MDB lending is the smallest among BRICs. For example, the IBRD’s total lending to Russia amounts to just USD 14.2 billion, which is a small fraction of Russia’s potential to absorb development loans.

Table 4

Cumulative approved lending of MDBs in BRIC countries (\$ billions)

	Brazil	Russia	India	China	Total accumulative lending
International					
IBRD	42,0	14,2	37,1	34,5	446,0
IDA	-	-	36,2	9,9	193,0
Regional					
IADB	34,5	-	-	-	169,3
ADB	-	-	20,6	21,0	143,5
EBRD		15,7*			n/a
Sub-regional					
Eurasian development bank		0,6			1,2

* - Cumulative lending for the period 2000-2009

The practice of MDB lending to BRICs shows that increasing loan portfolio does not depend on their share of subscribed capital and is generally based on the size of the economy and its debt repayment capacity. As shown in the section 3, MDBs develop their lending policy to provide uniformity of loan disbursement among recipients. Despite that policy, BRIC countries have become the largest borrowers of MDBs. Their share in IBRD total commitments reached 29% in 2008. AsDB assistance for China and India accounts for 14.6% and 14.4% of the total amount of disbursed loans, which is more than loan disbursements to any other Asian country. Brazil left behind all other IADB recipients attracting more than 20% of its approved loans as of the end 2008. It is interesting to mention that during some years the share of Brazil reached more significant levels. For example, in 2004 Brazil received 43.4% of the bank’s annual lending. Russia is currently the largest recipient of EBRD and sub-regional banks’ loans.

Attracting as they do a significant portion of multilateral development finance, BRIC countries increase geographical disparities of MDBs operations. First of all, BRICs, as large economies, require much more financial resources than other countries of the corresponding

regions. Secondly, BRICs' leadership in MDB borrowings also reflects the fact that BRIC countries are more attractive borrowers for MDBs due to their lower credit risk compared to that associated with smaller, poorer developing and emerging markets. This situation results in a relatively greater competitiveness of BRICs for lending and in a diversion of capital from less developed countries in favor of economies with a greater potential (Abalkina, Golovnin, Libman, 2005).

In spite of increasing volumes of MDBs operations, the dependence of BRIC countries on multilateral long-term loans is declining. For example, the share of MDBs is declining in the total lending to China. Disbursements of international financial organizations accounted for 15.8% of China's total outstanding debt in 1998 and fell to 7.6% in 2007. The reliance of Russia on borrowings from multilaterals also fell dramatically. Multilateral borrowings accounted for 3.8% of the country's total external debt in 2000, and their share sank below 1% by the beginning of 2009. India, whose reliance on multilateral lending is more considerable among BRIC countries, also registered a decline in percentage terms. The share of MDB lending in India's total outstanding debt declined from 26.2% to 21.7% over 2004-2007. The reason for the declining role of multilateral aid lies in the substantial increase in private capital inflow to BRIC countries during the last decades as a result of rapid economic growth, investment climate improvement, liberalization of capital account operations. Total investments rose significantly in BRICs during 1997-2007 (from 3.2x in India up to 7.7x in China) and they reached USD 114 billion in Brazil, USD 211.2 billion in Russia, and USD 241.2 billion in China in 2007. The overall capital inflow into India stood at USD 47.5 billion in 2006.

Whereas public borrowing was the main source of external lending in 1995, in 2007 private companies and banks, which had received access to international markets, increased international debt commitments considerably. While private capital investments in BRIC countries have surged dramatically in 1990s and 2000s, MDBs disbursements as a share of public borrowings is growing more gradually.

Table 5**BRIC external debt**

	Total external debt		Long-term debt						Short-term debt	
			Public and publicly guaranteed				Private nonguaranteed			
	1995	2007	Total		IBRD and IDA loans		1995	2007	1995	2007
Brazil	160,5	237,5	98,3	80,0	6,0	9,7	30,8	118,3	31,2	39,2
Russia	121,4	370,2	101,6	70,4	1,5	4,8	0,0	160,4	10,2	40,4
India	94,5	221,0	80,4	74,4	27,3	33,4	6,6	102,9	5,0	43,7
China	118,1	373,6	94,7	87,6	14,2	21,9	1,1	82,3	22,3	203,7

Source: World development indicators, 2009.

Cost-sharing mode of projects financing made it possible to mobilize additional capital for project realization and stimulate BRICs to develop themselves. MDBs have developed close relations with investors which participate in project financing. For example, for every USD 100 IADB granted to Brazil out of its resources, the bank raised an additional USD 189.5 from other sources. MDBs increasingly practice co-financing together with the IMF, UN agencies, national development banks.

Over recent decades, there has been a trend of decline in net non-concessional lending from international financial institutions. Among BRIC countries, only India still relies on concessional loans. According to outstanding foreign debt data provided by the Reserve Bank of India, concessional lending accounts for 69% of all outstanding borrowings from multilateral organizations as of June 2007. Government borrowings on a bilateral basis are made mainly on concessional terms (around 76% of all bilateral borrowings). Since China's transformation into a market economy, the policy towards external borrowing has been relatively conservative and was mainly limited to long-term borrowing on concessional terms from foreign governments and international organizations, i.e. the official sources (Bell et al., 1993). Soft-window loans were primarily used for institutional innovations and agricultural projects in poor regions. The

forced shift to market-based loans changed the direction of MDBs investments which went mainly to support infrastructure and industrial projects (Sanford, 1997).

Discussion is still ongoing about access of China and India to soft-loan facilities. On the one hand, both countries are capable of raising enough capital on international financial markets. On the other hand, given the significant regional disparities in economic development, the poorer regions within both countries suffer from insufficient development finance.

The case against concessional financing to China and India includes not only good economic performance of the countries, but also increasing criticism of MDB operations. According to Meltzer report (2000), countries with access to international capital markets, or middle income economies, should not borrow from multilateral development banks due to the fact that MDB loans are an inexpensive substitute for capital resources from commercial institutions (Voprosy Ekonomiki, 2002b).

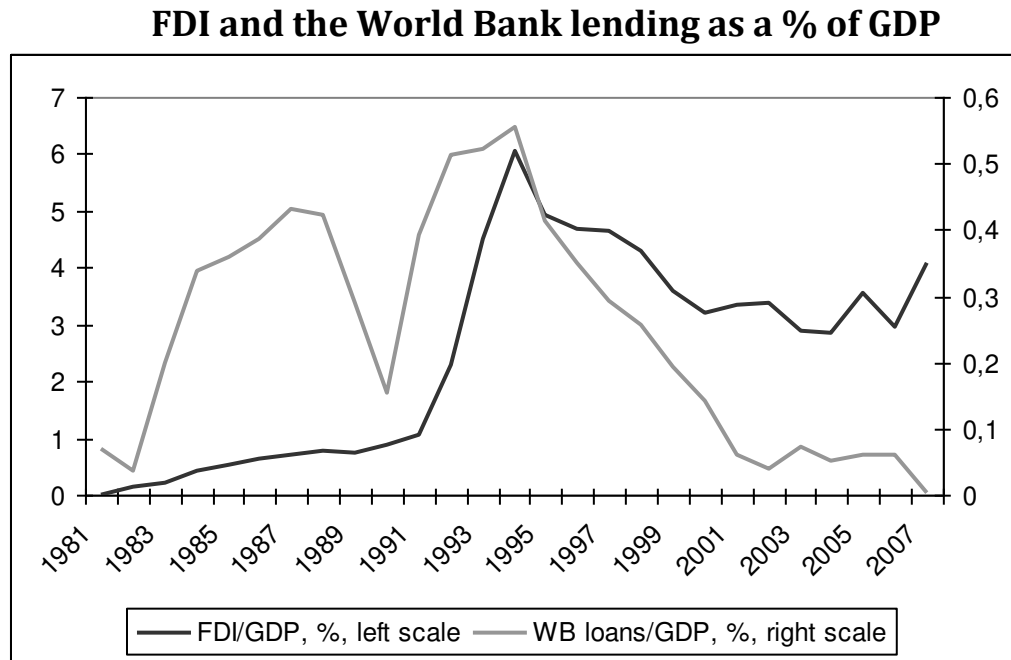
Although private capital cannot substitute for development aid, as private investors are mostly interested in profitable private projects and much less in public sector reforms, poverty reduction, education, health, environment, etc. (Lecea, 2007). The situation is further complicated by the fact that private capital comes mostly in short-term loans, unlike MDB lending.

Research data shows that MDBs play a counter-cyclical and stabilizing role during economic stress (Dasgupta, Ratha, 2000). Multilaterals also help to relieve uncertainty on local markets by rebuilding market confidence (Gurria, Volcker, 2001). Multilateral banks increase lending during economic crises and support stabilization programs. Figure 2 shows the growth of BRICs loan commitments during the 1997-1998 economic crisis. The most significant increase was registered in Brazil, whose stabilization programs were supported by multilateral development banks.

Analysis of dependence of MDB loans on the inflow of foreign direct investment in China reflects the changing correlation between these two factors. There is no evidence that World Bank loans played a counter-cyclical role in 1981-2000. Since China's transition to market economy, the foreign direct investment (FDI) as well as IBRD and IDA loans were growing. However, since the beginning of the 2000s, IBRD commitments become counter-cyclical to private FDI inflows (the correlation between FDI and the World Bank loans is rather high and

negative at -0.49). It follows from this that World Bank lending has started to play a stabilizing role in China in response to volatility of private capital movement.

Figure 2



The World Bank, IMF.

During the 1990s, the World Bank gradually reduced the volume of its lending to China. In fact, there was a policy limit for increasing loan commitments due to IBRD policy of 10% limit of loan exposure to any one country. Actually, it reflected the fact that China’s potential to attract development finance is much higher than MDBs’ capabilities to grant it.

Therefore, MDB performance in BRICs can be characterized by the following trends. During the last decade, outstanding loans granted by MDBs doubled in all BRICs except Russia which limited its external sovereign borrowing. BRICs have become the principal recipients of loans from the MDBs where they have borrowing member status. Despite this significant increase in MDB lending to BRICs, their dependence on multilateral aid is decreasing due to private capital inflows. At the same time, MDB loans remain the main source of external sovereign borrowing. MDB lending has a positive influence on BRIC economies in two ways. First, MDB lending has played a counter-cyclical role in China since 2000. Second, the cost-sharing mode of project financing by MDBs allows BRICs to mobilize additional capital.

5. Distribution of MDB loans by sector and their effectiveness

Distribution of MDB lending by sector

The main differences in sector distribution of multilateral assistance to BRIC countries arise from the structure of their economies, the level of economic development, availability of concessional lending, MDBs' country-specific policies, and BRICs' approach towards attracting financial resources from MDBs.

Multilaterals do not work out a common policy towards BRIC countries and banks' activity is provided according to the country strategy of each organization. For example, the World Bank's country partnership strategy is prepared by the Bank's country departments and is discussed with the national governments of BRICs. Therefore, the lending policy represents the consensus between the World Bank development goals and each national government's approach towards foreign assistance.

Despite difficulties involved in the classification of the World Bank loan distribution structure it is clear that the bank's loans were mainly allocated to stimulate competitiveness of BRIC countries, reduce poverty and support reforms, rather than realizing social projects. According to cumulative approved loan data (see Table 6), the World Bank's lending focused on building infrastructure (20.2% in Brazil and 34.6% in China) and supporting agriculture (24.1% in India, 16.6% in China, and 15.8% in Brazil).

Russia's transition to market economy and its transformation crisis forced the country to search for external sources to finance its economic stabilization programs (mainly the IMF and the IBRD). Russia (which actively interacted with the IBRD mostly before the 1998 financial crisis) mainly applied for adjustment loans and reform assistance (legal reform project, fiscal technical assistance, tax administration modernization, etc.). Public administration and law projects absorbed nearly 40% of the IBRD cumulative lending.

Public administration projects together with infrastructure projects were also a priority in Brazil. As much as 19.5% of total IBRD lending to that country was allocated to implementation of fiscal and pension reforms and environmental projects, mainly in the 1990-2000s.

Table 6

**Sector distribution of IBRD and IDA loans, %
(as of the end of 1H 2009)**

	Brazil	Russia	India	China
Agriculture, fishing, and forestry	15.8	3.4	24.1	16.6
Education	7.8	0.8	7.0	4.0
Energy and mining	6.1	22.0	15.1	15.8
Finance	7.1	7.0	7.5	2.8
Health and other social services	10.7	5.5	8.5	1.8
Industry and trade	2.9	12.2	4.6	4.1
Public Administration, Law, and Justice	19.5	38.1	6.5	1.6
Transportation	20.2	9.3	18.8	34.6
Water, sanitation and flood protection	10.1	1.0	5.9	18.0
Information technology and communications	-	0.8	2.1	0.5

Source: Calculations based on the World Bank project database according to the first major sector.

The MDB strategy towards BRIC countries has been transformed over time responding to the needs and challenges of each specific borrower. Cumulative lending data do not provide evidence of changing priorities in MDB lending to BRICs.

Brazil

The World Bank's operations in Brazil, which totaled USD 1 billion over time, were initially concentrated in power sector and infrastructure in the 1950-60s. The impact of IBRD operations in Brazil were quite limited. Starting in the 1970s, the bank's lending portfolio became more diversified with a focus on education, industry development and transportation projects. It is interesting to mention that initially agriculture was not a priority of the World Bank assistance to Brazil. The first agricultural project was approved only in 1967 for the purpose of livestock development. In the 1990s and 2000s, Brazil shifted from poverty alleviation projects to adjustment lending.

Development of IBRD operations in Brazil currently faces new challenges which are connected with the activity of national development institutions. Thus, the lending volumes of

the Brazilian development bank (BDB) are much higher than those of the IBRD, and BDB loan approvals already reached USD 100 billion in 2009. In this connection, the World Bank adopted a new country partnership strategy which sets priorities for future cooperation between Brazil and the IBRD. Taking into consideration other significant channels of development finance available to Brazil, the World Bank is going to focus on long-term challenges, to which Brazil has not yet devised solutions, and where international experience can be of particular value. Thus, the World Bank is not aiming to increase the volume of development finance, but to offer advice for development and to help Brazil to become equitable, sustainable and competitive.

Russia

In the early 1990s, all IBRD projects in Russia aimed at rehabilitation of manufacturing and support for reforms in various spheres (land, tax and legal reforms; oil, natural gas and coal rehabilitation projects; support of industrial companies and banks, etc.). The IBRD also approved three tranches of structural adjustment loans which were a part of the IMF stabilization program. Actually, in 1997 IBRD approvals in Russia reached an all-time maximum of USD 3 billion. The last adjustment loan was approved on the eve of the 1998 financial crisis. After the crisis, Russia's cooperation with the World Bank was limited to some technical assistance projects (for example, for development of a statistics collecting system). Since 2000, annual IBRD disbursements barely exceeded USD 200 million, a tiny amount for the Russian economy.

Russia, unlike the other BRIC countries, does not rely on IBRD financing due to changes in its sovereign borrowing program (see Section 4). During the 2000-2009 period, Russia cooperated only with those international financial institutions that provide assistance for the private sector. The EBRD and the International Financial Corporation became the main foreign institutional investors in Russia.

India

India's cooperation with the World Bank has been developing slowly. In 1960s IBRD loans were mainly allocated in infrastructure sector. After the foundation of concessional window India became a significant borrower of resources to finance the support of agriculture. In the 1990s and 2000s, agriculture, social sector, electric utilities, and infrastructure received the largest amount of World Bank loans.

The overall external assistance gives the evidence of other lending priorities. Thus, in the mid-1990s, external assistance was focused on power sector (1/3 of total). In the 2000s, priorities shifted towards the social sectors which was in accordance with Millennium Development Goals (Government of India, 2008).

China

China's collaboration with the World Bank initiated in 1981 with the approval of educational project which aimed to strengthen higher education in the country. In 1980s lending volumes were rather modest and they significantly increased in 1990s reaching USD 2.4 billion of yearly disbursements to the country. In 2000s water sanitation, transport and energy projects were mainly supported. Infrastructure development was considered to be one of the most effective ways of promoting market integration, poverty reduction and development of inland China (World Bank, 2005).

According to the country partnership strategy for 2006-2010 the World Bank aims to help to integrate China into the world economy; reduce poverty, inequality and social exclusion; manage resource scarcity and environmental challenges; deepen financial intermediation; improving public and market institutions.

Does regional MDB lending intersect with World Bank operations?

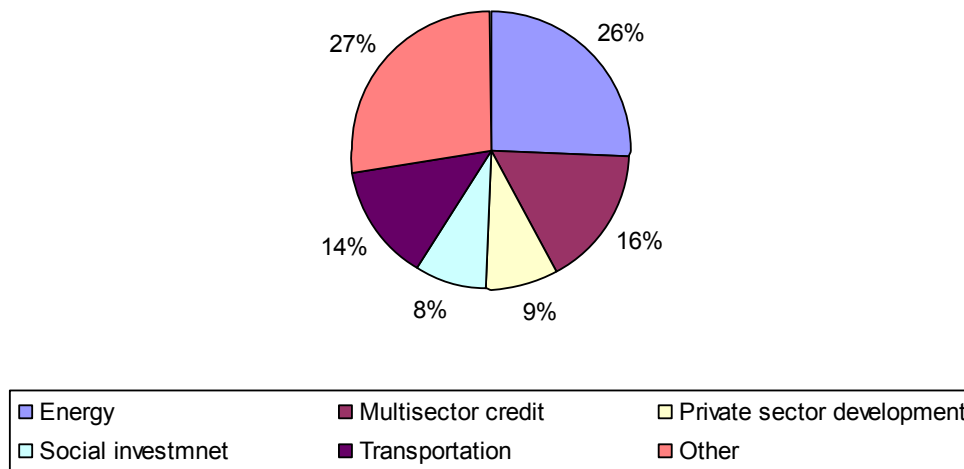
As was mentioned in the previous section, BRIC countries have become the principal borrowers of regional development banks. Sub-regional, regional and international development banks usually collaborate to work out a common policy for development finance. According to the Monterrey Consensus on Financing for Development, multilaterals should cooperate to provide an adequate supply of finance to countries that are challenged by poverty, follow sound economic policies and may lack adequate access to capital markets. They should also mitigate the impact of excessive volatility of financial markets (United Nations, 2002). Multilateral banks often practice co-financing of projects that aim to support financial or disaster relief and recovery, and to build large infrastructure projects, etc. Therefore, they unite their financial resources to achieve the development goals of BRICs and supplement each other.

When granting loans separately, MDBs have a moderate overlapping in the case of India, China and Brazil. Due to different missions of the IBRD and the EBRD, the two development institutions play mostly complementary role in Russia.

The experience of Brazil's borrowings from multilaterals gives the evidence of moderate intersections of their activity specially in power sector and infrastructure development. The Inter-American Development Bank's infrastructure portfolio is much larger than IBRD's and the regional bank supports urban development more actively. The IADB provided very limited assistance to agriculture. Its education, healthcare and environment protection portfolios were smaller than IBRD's (World Bank, 2004). The moderate overlapping of MDB's activity is a result of Brazil's government dialog with multilateral banks and definition of sector priorities for each development institution.

Figure 3

IADB distribution of loans by sector in Brazil (2004-2008), %



The experience of China and India as borrowers from MDBs provides evidence of small overlapping of the AsDB and IBRD/IDA operations and of the AsDB's specialization in financing infrastructure and power utilities sector. As shown in Table 7, China's energy and transportation and telecommunication sectors received 70% of cumulative AsDB lending, and in the case of India these sectors account for almost 64% of AsDB lending. AsDB loans are not used to support agriculture, especially in India, and for water supply and healthcare projects.

Table 7**China and India: Cumulative AsDB Lending as of 31 December 2008**

Sector	China			India		
	Loans (no.)	Amount (\$ million)	%	Loans (no.)	Amount (\$ million)	%
Agriculture and Natural Resources	15	1325,60	6,31	2	93,31	0,45
Energy	30	2967,78	14,13	41	6799,39	33,03
Finance	2	80,72	0,38	13	2410,00	11,71
Industry and Trade	9	1044,80	4,97	9	335,90	1,63
Multisector	18	1865,12	8,88	20	2958,00	14,37
Transport and Communications	62	11822,50	56,29	32	6366,85	30,93
Water Supply, Sanitation and Waste Management	18	1897,66	9,03	5	614,40	2,98
Law, Economic Management and Public Policy	-	-	-	6	950,00	4,61
Health, Nutrition and Social Protection	-	-	-	2	58,64	0,28

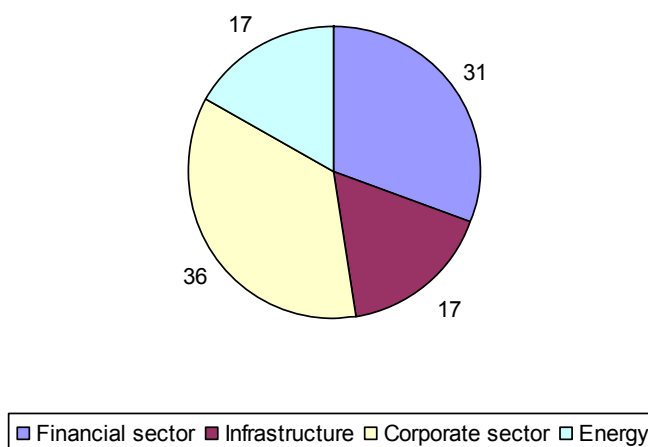
^a Total may not add up because of rounding

Source: ADB

Russia remains a key focus of EBRD operations. Due to the EBRD's mission to stimulate the market transition of borrowing member countries and the promotion of private and entrepreneurial initiative, the bank, unlike the other regional development institutions, mainly supports the private sector. During 2000-2008, the EBRD directed 86% of its Russian lending portfolio to the Russian private sector. The EBRD is highly involved in financing investments in the corporate sector, for example automotive, metals, machinery and telecom sectors. The EBRD's another priority in Russia is supporting the financial sector. The EBRD grants loans to banks for the provision of funding to small and medium-sized enterprises, for the development of trade finance and retail banking. The investments are also designed to promote corporate governance and institutional improvements in the financial sector. For that purpose, the EBRD provides equity investments and has become a shareholder in a number of Russian banks. However, the EBRD does not aim to control a bank, limiting its share in the local bank's authorized capital at 35%.

Figure 4

Sector breakdown of current projects of EBRD in Russia, %



Source: EBRD

International and regional MDBs play a complementary role in BRIC countries by co-financing large-scale projects or providing emergency financial facilities. Different missions and specializations of MDB operation in BRIC countries result in a moderate overlap of their activity.

Effectiveness of MDB loans in BRICs

The problem of evaluation of project effectiveness in BRICs raises two interrelated questions: How to estimate impact of development finance instruments of MDBs in BRIC countries when the banks' operations are relatively small compared with the size of BRIC economies? And is there any link between MDB interventions and acceleration of growth rates in BRICs?

Multilaterals evaluate their projects by taking into consideration project relevance (the extent to which the objectives of a project are consistent with beneficiaries' requirements), achievement of the objective (extent to which a project's objectives were achieved), efficiency (the extent to which project benefits/output are commensurate with expenditures/inputs) and sustainability (the probability of continued long-term benefits). An aggregate project performance indicator can be rated on a four-level scale (unsatisfactory, partly unsatisfactory, satisfactory and excellent) or a two-level scale (unsatisfactory and satisfactory/successful).

The World Bank provides its own evaluation of projects in BRICs (see Table 8). The satisfactory grade of a project indicates the achievement of the project's objectives and can be a signal of a side or direct positive influence of MDBs on development processes in BRICs.

Table 8

The World Bank projects evaluation in China, India and Brazil

	Number of projects	Total net commitments (\$ million)	Net commitments		
			Outcome (% satisfactory)	Sustainability (% likely)	Institutional development impact (% substantial)
1993-1997					
China	54	6,760	89	83	46
Brazil	41	4,679	72	65	41
India	70	10,858	71	55	29
Bankwide	1,195	90,962	74	56	36
1998-02					
China	53	8,546	93	96	80
Brazil	41	7,314	94	95	62
India	58	8,260	77	77	49
Bankwide	1,314	102,095	82	75	50

Source: The World Bank.

Among BIC countries, India has the lowest grades of project evaluation, which are also below the bank-wide level. Only 71% of all projects were satisfactory in 1993-1997, and only 77% were successful during 1998-2002. China, on the other hand, is considered to be the most successful country among BICs in achieving project objectives and development impact. It is important to note, however, that project performance in all BICs improved over 1993-2002.

Table 9**China and India: AsDB Project Success Rates (as of the end 2008)**

By Sector	China		India	
	Percentage	No. of Rated Projects	Percentage	No. of Rated Projects
Agriculture and Natural Resources	42.9	7	-	-
Energy	93.3	15	81.3	16
Finance	100.0	1	75.0	8
Industry and Trade	62.5	8	-	-
Multisector	83.3	6	80.0	5
Transport and Communications	94.4	36	45.5	11
Water Supply, Sanitation, and Waste Management	100.0	5	-	-
Law, Economic Management,	-	-	33.3	3
Total	85.9	78	67.4	43
By Year of Approval				
1980s	66.7	6	70.0	10
1990s	85.9	64	64.0	25
2000s	100.0	8	75.0	8

Source: AsDB.

Evaluation of projects by sector in India and China gives the evidence that the most successful projects were realized by AsDB in energy and financial sectors. The less satisfactory projects were recorded in the Indian transport sector and Chinese agriculture and natural resources. The dynamics of successful projects share is also positive as of the World Bank.

During the last decades, BRIC countries have witnessed two simultaneous processes. First, BRICs have achieved significant results in poverty reduction and economic development. Second, over the same time, MDBs have increased their operation amounts in the countries. But there are no proven links between these two processes, i.e. between MDBs intervention in BRICs and improved economic situation in the countries.

Due to the fact that MDBs are niche players in BRIC countries, it is difficult to rate their contribution to development. For example, the World Bank's activity in Brazil has made a moderate contribution to the reduction in poverty rates in the 1990s as measured by national

income (World Bank, 2004). The bank's operations are noticeable only in Northeast regions of Brazil. Little is known about development contribution of the IADB in Brazil. According to country program evaluation, the development impact and the achievement of the development objectives stipulated under the loans are not monitored (Inter-American Development Bank, 2004).

MDBs lending is modest for a such large-scale economy as China. It amounts to only 4% of government expenditure. At the same time, China is considered to be one of the most successful countries to fight poverty. MDB-supported poverty-reduction programs have a relatively low share. For example, poverty-targeted intervention by the World Bank accounts for 15% of total lending to China. Although the experience of China shows that infrastructure projects with poverty reduction component (i.e. highways that integrate remote markets) could be more beneficial to the poor than direct transfers or interventions (World Bank, 2005).

MDB weaknesses

We can classify problems and difficulties of MBD cooperation into three groups: critics on MDB performance, country level problems and project management efficiency.

Critics on MDB performance

MDB activity has been criticized for many years. Critics of MDBs are concerned that multilaterals' practice often differs from their written policies and official statements (Upton, 2000).

Multilaterals are also criticized for their ideological approach towards borrowers forcing policy reforms. In case of Russia and Brazil, World Bank lending (together with IMF programs) is perceived by a group of scholars and politicians as an instrument of neoliberal agenda that does not take into consideration the peculiarities of national development models (Stiglitz, 2002).

Multilateral programs of private sector support (specially by EBRD, IFC, etc.) are criticized for interfering with market financing. The Meltzer Commission Report provides the evidence that commercial banks are ready to finance infrastructure and social programs if their loans are secured by government guarantees (Meltzer, 2000).

Some recent projects in BRIC countries prove the break of additionality principle of MDB lending. For example, the World Bank together with IADB have financed the largest infrastructure project in Latin America worth USD 2.1 billion – the construction of a pipeline

designed to deliver gas from Bolivia to Brazil. In effect, MDB participation in this project is a substitute for investments by such private companies as Gas Transboliviano, Enron Corp. and Royal Dutch/Shell Group. Vásquez, director of the Project on Global Economic Liberty at the Cato Institute, notes that “if the lending agencies are not supplanting sources of private finance, then they are second-guessing the market's judgment about the financial worthiness of such investments” (Vásquez, 1998).

Another example concerns the performance of the International Investment Bank in Russia, which provides loans to the private sector on market terms, and acts more as a commercial bank than a development one.

One more obstacle to improving BRICs collaboration with MDBs is the ineffective structure of these organizations. Most sub-regional development banks in which Russia is a member are not effective financial institutions due to their small size, modest operation volumes, non-transparent organizational and operational structure. Thus, the Interstate Bank of the CIS is nowadays mostly inactive in granting development loans. Its lending volumes are not enough to be a noticeable multilateral institution. Essentially, the project to establish an investment and payment-clearing institution for the Former Soviet Union (the FSU) has failed.

The International Investment Bank and the International Bank for Economic Co-operation are making a modest impact on the capital markets of their member states. Their operation volumes do not exceed several hundred million US dollars per annum and their loans are mainly issued to commercial banks and large companies. For example, in 2007, the IIB granted loans to the total amount of EUR 56.3 million. IIB does not have a credit rating issued by international agencies, which complicates raising capital, for example, through bond issues.

Country-level problems

Country-level obstacles to collaboration with MDBs mainly have to do with the level of economic and institutional development and the specific country's policy towards multilaterals. Development assistance by multilaterals is not enough for large-scale economies like BRICs. Their need for financial resources is much greater than the potential of multilaterals. The experience of China is rather demonstrative. The IBRD lending to China reached nearly 10% of the bank's portfolio in the late 1990s. The future lending and country assistance were suspended due to constraints posed by exposure limits of IBRD (10% limit of portfolio lending to one country). China and IBRD agreed to prepay some debts and to make offset purchase of IBRD

bonds so the bank can increase its annual lending to a projected USD 1.2 – USD 1.3 billion (World Bank, 2005).

Russia does not have a comprehensive policy for raising capital externally to boost economic growth, to enhance industry competitiveness and to support reforms. Borrowing programs have been worked out according to MDB policy and the strategic and tactic goals of selected ministries without definition of priority sectors that need financial support (Voprosy Ekonomiki, 2002). For example, cooperation with the Black Sea Trade and Development Bank is developing slowly due to omission by the Russian Ministry for Economy Development to choose those projects that can be realized with BSTDB participation.

Russia faces also some other difficulties with coordination of external borrowings. First, the Russian budget law fixes the limit of borrowings from international financial organizations. Though priorities and industry structure of the capital raised are defined by the Russian Ministry of Finance and Ministry of Economic Development. Second, Russia has seen projects financed by MDBs get under way before the relevant budget was signed into law. Third, borrowing from international financial institutions increasingly ignored debt service. The result of inadequate policy was uneven loan maturity schedules with high peaks of repayment amounts. This situation led to the need to borrow more money to repay old debts.

Project management obstacles

Commonly encountered project management obstacles are delays in realization of a project, lack of explicit reasonable grounds for expenses, lack of a national system of project evaluation and monitoring.

Table 10

Share of total undisbursed loans by MDB as of the end 2008, %

	Brazil	Russia	India	China
The World Bank	18,9	32,0	33,5	25,1
Regional MDBs	14,0	13,9	34,8*	29,4*

* - Undisbursed share of effective loans

Source: World Bank, IADB, AsDB, EBRD.

Brazil

During the 1980s, the outcomes of World Bank projects in Brazil had worse ratings than bank-wide, (World Bank, 2004). Only 59% of all projects were rated satisfactory in comparison with the World Bank's average of 69%. Brazil significantly improved its project management in the second half of the 1990s due to a sharp turnaround in project performance. As a result of management improvements, the share of undisbursed loans declined. Nowadays Brazil has the highest level of disbursed lending among BRICs.

Russia

A study by the Audit Chamber of Russia on effectiveness of World Bank loans provides evidence of delays in project implementation. Projects were delayed, on average, by 2.5 years (30 months) during 1992-2000. The number of projects covered by the study that were not finished on time was increasing. The reason for such delays has to do with the lack of implementation and monitoring mechanisms for MDB loans in Russia. (Voprosy Ekonomiki, 2002). The Audit Chamber also found significant unjustified expenditures which included foreign experts' advice.

The share of misused loans issued by the World Bank to Russia is one of the highest among BRICs. It can be explained by changes in external borrowing programs and by freezing of projects in the late 1990s.

India

India mostly relies on multilateral assistance which is a significant source of capital inflow for the country. India, like all BRICs, runs into project management difficulties. First of all, India has the highest level of undisbursed loans which account for 1/3 of total approvals by the World Bank and AsDB.

China

According to World Bank estimates, the overall portfolio risks in China are rather low, but still there are a number of recurring problems (World Bank, 2005). Portfolio risk assessments reveal slow disbursements that result in additional payments from the federal budget (0.25% of unused resources). The World Bank disbursements account for $\frac{3}{4}$ of total approvals that is less of overall bank average. AsDB disbursements amount to 70.6% of total approved lending.

National audit findings provide evidence of slow implementation of projects. The National Audit Office of China (CNAO) conducted an audit in 2007 of financial revenues and expenditures and project implementation in 2006 for projects associated with 117 foreign loans and aid projects implemented or organized by departments of the central government. According to the results of the audit, 23 projects were not completed according to plan, or 19.7% of the total.

6. Policy implications

1. Despite the impressive results of economic development, China still has 200 million poor people who subsist on less than USD 1 a day. Weak sectors and poor regions feel an increasing demand for development finance. Due to restrictions on MDB concessional lending to China, the country needs to simulate the IDA or AsDF terms in order to respond to the poor regions' need for financial resources.
2. Capital accumulation has allowed China to play a more important role as a donor of development aid. Taking into consideration the existing threats of limitation of MDB lending to China due to its good performance and fear of donors to finance a competitor, China should promote the foundation of a sub-regional development bank in East Asia. The new sub-regional bank could solve the following problems:
 - Usage of donor and borrowing member status according to the interests of China;
 - Access to long-term loans on favorable terms;
 - Increase of lending amounts;
 - Promotion of regional integration;
 - Possibility to develop a regional capital market;
 - Contribution to the Asian bond initiative.
3. There is still a need for improvement in project management (especially in agricultural and industry and trade projects) to reduce implementation delays, undisbursements, and to increase the share of satisfactorily completed projects.

Table 11**SWOT analysis of MDB operations in China**

<p>Strengths</p> <ul style="list-style-type: none"> • Access to lending windows on favorable terms • Access to long-term lending windows • Mobilization of additional resources from public and private investors • Possibility to finance large-scale projects that could not be financed by private investors • Good debt repayment capacities of China <p>Opportunities</p> <ul style="list-style-type: none"> • Counter-cyclical role of MDB loans • Opportunity to use emergency lending window for natural disaster or economic crises relief and recovery • Possibility to implement best practices • Availability of expert advice from MDBs 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Disparity between MDB lending amounts and scale of China's economy • Project management risks of implementation delays and undisbursements • Existence of unsatisfactory projects • Conditional lending • Restrictions on concessional lending <p>Threats</p> <ul style="list-style-type: none"> • Possible restriction of MDB lending due to strong debt repayment capacities • Eligibility and country exposure policy does not allow MDBs to increase lending volumes • Donor countries may decide not to finance a competitor
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Abbreviations

AfDB	African development bank
AsDB	Asian development bank
AsDF	Asian development fund
BLADEX	Latin American Export Bank
BRIC	Brazil, Russia, India, China
BSTDB	Black Sea Trade and Development Bank
CABEI	Central American Bank for Economic Integration
CAF	Andean Development Corporation
Comecon	Council for Mutual Economic Assistance
EABR	Eurasian Development Bank
EBRD	European bank for reconstruction and development
EIB	European Investment Bank
IADB	Inter-American development bank
IBEC	International Bank for Economic Co-operation
IDA	International Development Association
IFC	International Finance Corporation
IIB	International Investment Bank
IMF	International Monetary Fund
MDB	Multilateral development bank
NIB	Nordic Investment Bank
WADB	West African development bank