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Report to Congressional Committees

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MULTILATERAL DEVELOPMENT BANKS

Profiles of Selected Multilateral Development Banks

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Contents

Abbreviations

AfDB African Development Bank
AfDF African Development Fund
AsDB Asian Development Bank
AsDF Asian Development Fund
EBRD European Bank for Reconstruction and Development
FSO Fund for Special Operations
GAAP Generally Accepted Accounting Principles
HIPC Heavily Indebted Poor Countries
IDB Inter-American Development Bank
IIC Inter-American Investment Corporation
IBRD International Bank for Reconstruction and Development
IDA International Development Association
IFC International Finance Corporation
LIBOR London Interbank Offer Rates
MDB Multilateral Development Bank
MIGA Multilateral Investment Guaranty Agency
OC Ordinary Capital (Inter-American Development Bank)
OCR Ordinary Capital Resources (Asian Development Bank)

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United States General Accounting Office
Washington, DC 20548

May 18, 2001

Congressional Committees

Multilateral Development Banks (MDB) were established to provide financial support for projects and programs designed to promote social and economic progress in developing countries. Under the Fiscal Year 2001 Foreign Operations, Export Financing, and Related Programs Appropriations Act (Public Law 106-429) (the Act), the United States is providing approximately $1.3 billion to support the missions of the MDBs discussed in this report. Section 803 of the Act provides that GAO report on the audits of certain MDBs' financial operations conducted by persons or entities outside the MDBs. We will be issuing a series of reports in response to these reporting requirements. As agreed with your offices, we will first provide a financial overview of the MDBs, including (1) summaries of each bank's mission, function, and operations, (2) key bank financial data covering the last 3 fiscal years,[1] and (3) the U.S. investment in capital and voting percentages in each MDB. The information contained in this report was compiled from a variety of publicly available sources, including the MDBs' audited financial statements and annual reports. Other publicly available data was obtained from the MDBs, the Congressional Research Service, and Standard & Poor's. We have begun work to assess the audit process at some of the regional MDBs and will report on that work at a later date. We plan to continue similar work with the remaining MDBs.

Overview

MDBs are autonomous international financial entities that finance economic and social development projects and programs in developing countries. All members participate in oversight and the setting of operating policies of the MDBs through their participation on the boards of governors. The MDBs primarily fund these projects and programs using money borrowed from world capital markets or money provided by governments of member countries. Because of the MDBs' favorable credit ratings, those MDBs that borrow funds from world capital markets are able to obtain more favorable loan terms than their borrowers could

[1]The last three fiscal years of data for banks affiliated with the World Bank Group are as of June 30, 1998 through 2000, and December 31, 1997 through 1999, for the regional development banks.

otherwise negotiate. Thus, MDBs enable developing countries to access foreign currency resources on more advantageous terms than would be available to them solely on the basis of their own international credit standing. MDBs are not commercial "banks" in the traditional sense of the term because they do not seek to maximize profits and they do not take customer deposits to fund their operations.

The MDBs provide assistance in the form of loans, equity investments, loan and equity guarantees, and technical assistance. The primary vehicle of development assistance is direct lending. Most loans are issued with market-based interest rates; however, some MDBs offer loans at concessional (less than current market) rates to the poorest of the developing countries. MDB loans are available in various currencies to their member countries or, in some cases, to private enterprises, for development projects in a borrowing member country. In some cases, a member country guarantees loans made to private sector enterprises within the member country and, as a result, may be held liable for any defaulted loans.

The United States is the largest member in most of the MDBs discussed in this report, contributing significant amounts to support the missions of the MDBs and subscribing a significant amount of the MDBs' callable capital.[2] The Congress appropriates funds for the United States' contributions to the MDBs. In fiscal year 2001, the Congress appropriated about $1.0 billion for the MDBs, with the largest contribution, $775 million, going to the World Bank Group's International Development Association. During fiscal year 2001, the Congress also authorized up to $271 million of new subscriptions to the MDBs' callable capital. The Department of the Treasury oversees the United States' interests in the MDBs. The United States is a member of the following MDB groups, which are included in this report: (1) the World Bank Group, (2) the African Development Bank Group, (3) the Asian Development Bank, (4) the Inter-American Development Bank, and (5) the European Bank for Reconstruction and Development.

In their most recent fiscal year of operations for which information was available, the MDBs we reviewed approved about $40.1 billion of

[2]Callable capital is a form of capital that is subscribed by members and resembles promissory notes from members to honor MDB debts if the MDB cannot otherwise meet its obligations through its other available resources. In the history of the MDBs, there has never been a call on this capital.

development assistance[3] consisting of loans, loan guarantees, and equity investments for economic and social development.[4] The Latin American and Caribbean region received the largest portion of this development assistance, approximately $15.8 billion, while the Asian and Pacific region received $11.9 billion, Europe and Central Asia received $6.3 billion, and Africa received $6.1 billion. The World Bank Group accounted for about 53 percent of the MDBs' total development assistance provided during this period, while the regional MDBs, which focus their development activities on a particular region, provided the remaining 47 percent. Loans with market-based interest rates, equity investments, and loan guarantees accounted for about $33.5 billion of the total financial support provided by these MDBs during the most recent fiscal years of operations, while concessional lending amounted to about $6.6 billion.

We received comments of a technical nature from Treasury officials, and these comments have been incorporated in the report where appropriate.

Scope and Methodology

Public Law 106-429, Appendix A, Title VIII, identifies 10 MDBs to be included in the scope of our work. However, in order to present consistent information across the MDB groups, we also included information on two of the regional MDBs' concessional lending arms.[5] For purposes of this report, each of the five MDBs, along with any related entities, is referred to as a "group." The MDBs and their related entities included in our report are the

[3]These amounts were determined based on the MDBs' annual reports and reported approvals during the applicable period. Since the International Finance Corporation did not provide approvals by region, its amounts were determined based on the distribution of its outstanding portfolio. Further, to avoid any double counting, the total amount of MDB financing for the last fiscal year does not include guarantees approved by the World Bank Group's Multilateral Investment Guaranty Agency (MIGA) because data were not available to determine the amount of MIGA guarantees that insured other MDB financial assistance.

[4]The most recent fiscal year of operation for which information was available was June 30, 2000, for the MDBs affiliated with the World Bank Group and December 31, 1999, for the regional development banks.

[5]The concessional lending arms that we have added to our scope include the Asian Development Bank's Asian Development Fund and the Inter-American Development Bank's Fund for Special Operations. Both of these concessional lending arms are integral parts of their affiliated bank and are not separate legal entities.

- World Bank Group
  - International Bank for Reconstruction and Development
  - International Development Association
  - International Finance Corporation
  - Multilateral Investment Guaranty Agency

- African Development Bank Group
  - African Development Bank
  - African Development Fund

- Asian Development Bank
  - Ordinary Capital Resources
  - Asian Development Fund

- Inter-American Development Bank
  - Ordinary Capital
  - Fund for Special Operations
  - Inter-American Investment Corporation

- European Bank for Reconstruction and Development

For our report, we analyzed and compiled information from the MDBs' annual reports and their audited financial statements for the most recent 3 fiscal years for which information was available as of January 1, 2001. We also reviewed the MDBs' Articles of Agreement. Other data sources included the Congressional Research Service and Standard & Poor's. The Standard & Poor's information we used relates to the credit ratings of several MDBs as of September 2000, criteria used to assess several of the MDBs, credit ratings of various borrowing members, and credit rating definitions.[6] This information was used with the permission of Standard & Poor's.

The most recent fiscal years of operations for which data were available from the annual reports and audited financial statements of the regional MDBs and the related entities of the World Bank Group were for the years ending December 31, 1999, and June 30, 2000, respectively. Our work

[6]The MDBs receive credit ratings from other rating agencies. However, we used Standard & Poor's data for our analysis because of its completeness, its coverage of several MDBs, and its timing. The Standard & Poor's information used for our report included *Counterparty Rating Guide*, First Quarter 2000; *Sovereign Rating History Since 1975*, and *Supranationals Special Edition 2000*, September 2000.

focused on the MDBs and the related entities listed above; our work did not cover the other special funds operated by the MDBs. To the extent possible, we used data audited by the MDBs' external auditors.

For comparability, we converted financial data from the African Development Bank Group and the European Bank for Reconstruction and Development to the U.S. dollar equivalent.[7] When calculating the financial information provided for the MDBs, we made the following adjustments to data items:

Loans outstanding include disbursed loans and equity investments, except where noted.

Net disbursed loans represent loans outstanding less the estimated loan loss allowance.

Nonaccrual loans include the principal portion only.

Undisbursed loans include loans that are committed but not yet disbursed.

Paid-in capital excludes amounts not yet due and receivables from members related to subscribed capital.

Because MDBs follow different accounting standards to prepare financial data, use different methodologies to estimate loan losses, and have different policies relating to nonaccrual loans, caution must be taken when comparing financial results. Further, MDBs serve different purposes and borrowers, which also affects the comparability of financial data.

We conducted our work in Washington, D.C., from January 2001 through April 2001 in accordance with generally accepted government auditing standards. On May 11, 2001, we received comments from cognizant Treasury officials and have incorporated those views and other technical suggestions into our report, where appropriate.

[7] Financial data from the African Development Bank Group's financial statements and annual reports were converted based on exchange rates included in the notes of the audited financial statements. Financial data for the European Bank for Reconstruction and Development were converted based on end-of-period exchange rates for 1997 through 1999 published in the International Monetary Fund's *International Financial Statistics*.

Multilateral Development Banks: Their Missions, Functions, and Organization

Multilateral Development Banks (MDB) are autonomous international financial entities that finance economic and social development projects and programs and provide technical assistance in developing countries primarily using money borrowed from world capital markets or contributed by governments of developed countries. Governments are the shareholders—referred to as members—of the MDBs.[8] MDB members include developing countries that borrow from the MDB as well as industrialized member countries.[9] Through their participation on the boards of governors all members, including borrowing members, contribute to the capital of the MDBs and participate in oversight and in the setting of operating policies. The ability of the MDBs to borrow funds at more favorable loan terms than the loan recipients could otherwise negotiate gives developing countries access to foreign currency resources on more advantageous terms than would be available to them solely on the basis of their own international credit standing.

Several of the MDBs have created separate entities or funds to carry out specific types of development assistance, such as market-based lending or private sector investments. Table 1 shows each MDB group and its related entities.

[8]The European Bank for Reconstruction and Development has two members that are not country governments. These two members are the European Investment Bank and the European Community.

[9]Member countries that borrow from MDBs are generally low- and middle-income countries in need of social or economic development.

Table 1: MDB Groups and Related Entities' Dates of Establishment

Multilateral Development Bank	Date Established
World Bank Group	
International Bank for Reconstruction and Development	1945
International Development Association	1960
International Finance Corporation	1956
Multilateral Investment Guarantee Agency	1988
African Development Bank Group	
African Development Bank	1964
African Development Fund	1973
Asian Development Bank	
Ordinary Capital Resources	1966
Asian Development Fund	1974
Inter-American Development Bank	
Ordinary Capital	1959
Fund for Special Operations	1959
Inter-American Investment Corporation	1986
European Bank for Reconstruction and Development	1990

Source: Multilateral Development Bank annual reports.

The World Bank Group draws its membership from developing and industrialized countries around the world. It includes four institutions, each providing a different function in carrying out the World Bank Group's mission of fighting poverty and improving the standard of living in developing countries throughout the world.

- The International Bank for Reconstruction and Development (IBRD)—the oldest and, based on total assets, largest MDB—is the World Bank entity that provides market-based loans, guarantees, and technical assistance to middle-income member countries and more creditworthy poorer member countries.

- The International Development Association is the World Bank's concessional lending arm that provides key support for the bank's poorer members.

- The International Finance Corporation provides loans, equity investments, and technical assistance for private sector enterprises.

- The Multilateral Investment Guaranty Agency provides guarantees to foreign investors against loss caused by noncommercial risks, as well as technical assistance to host governments.

The remaining four MDB groups are referred to as regional development banks because they focus their development activities on a particular region. The regional development banks' membership consists of developing or borrowing countries within a particular region of the world plus industrialized member countries located throughout the world. Four regional MDBs—and their lending arms that provide concessional lending or equity investments[10]—included in this report are described below.

The African Development Bank Group includes the following two entities, which serve the development needs of Africa.

- The African Development Bank provides market-based loans, equity investments, loan guarantees, and technical assistance to the public and private sector.
- The African Development Fund is the concessional lending arm that provides technical assistance and key support for the bank's poorer members.

The Asian Development Bank includes the following two operational lending arms, which serve the development needs of the Asian and Pacific regions.

- The Asian Development Bank's Ordinary Capital Resources provides market-based loans, equity investments, and loan guarantees, and it indirectly provides technical assistance to middle-income countries and creditworthy poorer countries.
- The Asian Development Fund is the concessional lending arm that provides technical assistance and key support for the bank's poorer members.

The Inter-American Development Bank group includes the following three lending arms, which serve the development needs of Latin America and the Caribbean.

[10]These MDBs also operate many other smaller funds that are not covered in our report.

- The Inter-American Development Bank's Ordinary Capital provides market-based loans, guarantees, and technical assistance to the public and private sectors.

- The Inter-American Development Bank's Fund for Special Operations is the concessional lending arm that provides technical assistance and key support for the bank's poorer members.

- The Inter-American Investment Corporation is the Inter-American Development Bank group's entity that provides loans, equity, and technical assistance to small and midsize private enterprises.

The European Bank for Reconstruction and Development serves central and eastern Europe and the Commonwealth of Independent States. It provides development assistance through market-based loans, cofinancing, loan guarantees, equity investments, and technical assistance to the public and private sector.

Lending and Financing Activities

The MDBs included in our analysis approved about $40.1 billion of financial assistance[11] to developing countries during the most recent fiscal year of operations for which data were available at January 1, 2001. The Latin American and Caribbean region received the largest portion of this development assistance with approximately $15.8 billion, while the Asian and Pacific region received $11.9 billion, Europe and Central Asia received $6.3 billion, and Africa received $6.1 billion. The World Bank Group accounted for about 53 percent of the development assistance during this period, while the regional MDBs provided the remaining 47 percent. Loans with market-based interest rates, equity investments, and loan guarantees accounted for about $33.5 billion of the MDBs' total financial support provided during the most recent fiscal years of operations, while concessional lending amounted to about $6.6 billion.

[11]These amounts were determined based on the MDB"s annual reports and reported approvals during the applicable period. Since the International Finance Corporation did not provide approvals by region, amounts were determined based on the distribution of its outstanding portfolio. Further, to avoid any double counting, the total amount of MDB financing for the last fiscal year does not include guarantees approved by the World Bank Group's MIGA because data were not available to determine the amount of MIGA guarantees that insured other MDB financial assistance.

The MDBs provide assistance in the form of loans, loan and investment guarantees, equity investments, and technical assistance. The primary vehicle for development assistance is market-based lending to member countries. Most loans are issued with market-based interest rates. However, as indicated in table 2, four of the five MDB groups offer loans at concessional rates, which are generally between zero and 4 percent. Concessional lending is provided to the poorest of the developing countries. Table 2 summarizes the type of development assistance provided by each of the MDB groups and their related entities.

Table 2: Development Assistance Available at Each Multilateral Development Bank

Multilateral development bank	Market-based loans	Concessional loans	Equity investments	Loan and investment guarantees	Technical assistance
World Bank Group					
International Bank for Reconstruction and Development	✓			✓	✓
International Development Association		✓		✓	✓
International Finance Corporation	✓		✓	✓	✓
Multilateral Investment Guaranty Agency				✓	✓
African Development Bank Group					
African Development Bank	✓		✓	✓	✓
African Development Fund		✓			✓
Asian Development Bank					
Ordinary Capital Resources	✓		✓	✓	✓
Asian Development Fund		✓			
Inter-American Development Bank					
Ordinary Capital	✓			✓	✓
Fund for Special Operations		✓			✓
Inter-American Investment Corporation	✓		✓		✓
European Bank for Reconstruction and Development	✓		✓	✓	✓

Source: Multilateral Development Bank annual reports and audited financial statements.

MDBs issue loans, in various currencies, to the sovereign member countries and private sector enterprises for development projects within borrowing member countries. In some cases, a member country guarantees loans made to private sector enterprises for projects within the member's country, and as a result, the member itself may be held liable for defaulted loans.

MDBs have lending policies that state that no further loan disbursements will be granted to borrowing members if any of the MDB loans to or guaranteed by the member country are in default. This gives the borrowing or guaranteeing member strong incentives to maintain timely loan repayments to the MDBs. Member countries must ensure that loans they have guaranteed also remain current. Therefore, the MDB is given preferred creditor status[12] by member governments. Generally, this preferential status does not affect the MDBs' loans to the private sector when there is no guarantee by a member country.

Market-Based Lending and Related Financing

Operations of MDBs that provide loans with market-based rates are financed primarily through borrowings from world capital markets, members' paid-in capital, and retained earnings. Members also provide capital through subscriptions to callable capital, which resemble promissory notes from member countries to honor MDB debts if the MDB cannot otherwise meet its obligations through its other available resources. Calls on this type of capital are uniform based on all callable capital shares outstanding. Since member countries make payments independent of each other, if the amount received on a call were insufficient to meet the obligations for which the call was made, the MDB would make further calls until the amounts received were sufficient to meet its obligations. However, no member may be required to pay more than the unpaid balance of its total callable capital subscribed. To date, there has never been a call on this capital for any of the MDBs included in our report.

Callable capital may only be used when necessary to pay obligations of the MDB; it may not be used to fund new loans. Because of the significant proportion of callable capital that is subscribed by members with strong credit ratings, including the United States, MDBs are able to use callable capital as backing to obtain very favorable financing terms when borrowing from world capital markets. This allows the MDBs to lend much more than the amount of capital paid in by members and at more advantageous terms than would be available to borrowers solely on the basis of their own credit standings. MDBs that have callable capital from members include the International Bank for Reconstruction and Development, the Multilateral Investment Guaranty Agency, the African

[12]The preferred creditor status derives from the borrowers' traditional practice of servicing debt owed to the MDBs before servicing debt owed to other lenders. The articles of agreement of the MDBs do not address preferred creditor status.

Development Bank, the Asian Development Bank's Ordinary Capital Resources, the Inter-American Development Bank's Ordinary Capital, and the European Bank for Reconstruction and Development.

Dealing in various currencies and borrowing funds to finance lending operations exposes these MDBs to market risk, which is comprised of interest rate risk[13] and exchange rate risk.[14] To minimize these risks, MDBs (1) match the maturities of their assets and liabilities, (2) often set and semiannually adjust interest rates on loans based on their cost of borrowing funds, and (3) attempt to match the currency composition of their lending and borrowing portfolios. In addition, because of the developmental nature of their operations, the MDBs are exposed to credit risk[15] from lending to low- and middle-income countries, which generally have lower credit quality. Each of the MDBs has established lending policies that attempt to minimize credit risk, including the suspension of further disbursements to members that have outstanding loans that are nonperforming or in a nonaccrual[16] status.

Concessional Lending and Related Financing

The lending arms of the MDBs that provide concessional rate loans to the poorest of the developing countries—those meeting certain eligibility requirements—are financed through capital contributions from member countries and borrower repayments of outstanding loans. Due to the nature of concessional lending, these entities do not have callable capital subscriptions and do not borrow from world capital markets to finance their operations.

Unlike the market-based lending arms of the MDBs, which borrow from world capital markets to fund lending, concessional lending arms rely on

[13]"Interest rate risk" refers to the changes in interest rates that affect the spread differences between the rate at which money is earned on lending activities and the rate paid for money borrowed to fund lending.

[14]"Exchange rate risk" refers to the possibility of gains or losses that arise when an entity has assets and liabilities and/or conducts transactions that are denominated in currencies other than the currency in which it maintains its accounts.

[15]"Credit risk" refers to the risk of default by a borrower or guarantor that may result from nonperformance under the terms of lending agreements.

[16]A loan is considered to be in a nonaccrual status when loan payments are delinquent over an extended period of time, generally 6 months for most of the MDBs discussed in this report.

capital replenishments[17] or periodic contributions by members in order to continue lending operations. As a result, these entities do not have the same interest rate risks associated with borrowing in the marketplace to fund lending as do the MDBs that provide market-based lending through leveraging high-quality callable capital. However, due to the nature of concessional lending to the poorest of the developing countries, these entities are exposed to considerable credit risks. Because of the credit risk of their borrowers and the extended maturity structure of this type of lending, the concessional lending arms discussed in this report, except for the Asian Development Fund, do not estimate allowances for possible losses related to their loan portfolios.

The private sector MDB affiliates that provide equity investments rely on members' paid-in capital contributions, as opposed to callable capital, to finance equity investment activities. However, these entities also borrow from world capital markets to finance lending operations. These affiliates include the International Finance Corporation of the World Bank Group and the Inter-American Investment Corporation.

Heavily Indebted Poor Countries Initiative

The Heavily Indebted Poor Countries (HIPC) Initiative is a debt relief program aimed at the world's poorest nations. The World Bank Group and the International Monetary Fund proposed the HIPC Initiative in 1996 in response to a call from leaders of major industrial nations for a comprehensive approach to the debt problems of the poorest countries. Enhancements to the HIPC Initiative were implemented in 1999. The initiative was designed as a coordinated approach to reduce to sustainable levels the external debt burden of the most heavily indebted countries.[18] The goal of the initiative is expected to provide $29.3 billion[19] in debt relief to 32 eligible countries. Debt relief is linked to the support of economic and social programs designed to reduce poverty. The initiative calls for countries to prepare a comprehensive "country owned" poverty reduction strategy before completing the program. The MDBs that participate in the HIPC Initiative include the International Bank for Reconstruction and

[17]Capital replenishments refer to periodic contributions by member countries that are agreed upon by the institution's board of governors. These replenishments depend on members to make agreed-upon contributions in order to fund concessional lending operations over a specified period of time.

[18]GAO reported in June 2000 that the initiative is unlikely to achieve this goal unless optimistic economic assumptions are satisfied (GAO/NSIAD-00-161, June 29, 2000).

[19]This amount is based on 1999 net present value dollars.

Development, the International Development Association, the African Development Bank Group, and the Inter-American Development Bank.[20]

The participation of some multilateral institutions is financed through a trust fund administered by the International Development Association of the World Bank Group. The HIPC Trust Fund receives contributions from participating countries. The HIPC Trust Fund's operations and assets are completely separate from those of the International Development Association. The fund can prepay or purchase a portion of debt owed to participating MDBs and cancel such debt, or it can pay debt service as it comes due. In fiscal year 2001, the Congress authorized to be appropriated during the period of October 1, 2000, through September 30, 2003, $435 million for U.S. contributions to the HIPC Trust Fund.

Governance Structure

An MDB's activities are overseen through a board of governors, with a governor from each member. In general, a board of governors is responsible for admitting new members, increasing or decreasing capital, suspending members, authorizing agreements for cooperation with other international organizations, making decisions about the board of executive directors, approving the bank's financial statements, determining the reserves and the distribution of profits, and making decisions about the scope of the MDB's operations. Each of the MDBs also has a board of executive directors to whom the board of governors has delegated oversight of day-to-day operations. In general, each board of executive directors is responsible for ensuring the implementation of the decisions of the board of governors; making decisions concerning loans, guarantees, investments, technical assistance, and borrowing funds; submitting accounts to the board of governors; and approving the budget of the bank. The MDB's daily operations are carried out by its own management and staff of international civil servants.

Generally, MDBs were established pursuant to articles of agreement that specify the MDB's purpose, operations, capital structure, and organizational policies. The articles

- outline the bank's conditions for borrowing and lending activities, including the loan approval process;

[20] According to the Asian Development Bank (AsDB), members have concluded that there currently is minimal or no need for AsDB to finance debt relief under the HIPC Initiative.

- determine how voting shares[21] are allocated to members (such allocations are generally based on a member's subscribed capital or total contributions);
- establish the status, immunity, and privileges of the MDB; and
- provide for the disposition of currencies available to the bank, the withdrawal and suspension of members, and the suspension and termination of the bank's operations.

As international financial entities, MDBs are not subject to supervision or oversight by national financial regulators. The MDBs' own boards of executive directors are responsible for setting rules to be observed by the MDBs in their operations.

Financial Statement Audits

The MDBs included in our report received unqualified or "clean" audit opinions on their financial statements from large, international public accounting firms for the 3 most recent fiscal years. MDBs prepare their financial statements to comply with different bases of accounting. Some MDBs present their financial statements using U.S. generally accepted accounting principles (GAAP), while others use International Accounting Standards or a combination of the two. Due to the special nature and organization of the concessional lending arms of the MDBs, some of these entities prepare special-purpose financial statements that are meant to show the sources and uses of resources and to comply with accounting standards specific to the affiliate's operations. The concessional lending arms that prepare special-purpose financial statements include the International Development Association, the African Development Fund, and the Inter-American Development Bank's Fund for Special Operations.

Financial Data and Ratio Analysis

Later sections of this report present ratios for each MDB that can be used to interpret financial information related to MDB operations. Where applicable, the financial ratios are presented for each MDB. Standard & Poor's used many of these same ratios in its evaluation of several of these MDBs.[22]

[21]Generally, decisions by the boards of governors and executive directors regarding the banks' operations are made by voting.

[22]The MDBs receive credit ratings from other rating agencies. However, we used Standard & Poor's data for our analysis because of its completeness, its coverage of several of the MDBs, and its timing.

Asset quality as it relates to the MDBs generally refers to the composition of the loan portfolio and is ultimately evidenced in the record of loan payments to the MDB. Asset quality reflects the creditworthiness of borrowers and is important for assessing credit risk. Asset quality also reflects the degree of concentration of risk, which considers the impact on the loan portfolio of potential default by the largest borrowers. The preferred creditor status attributed to MDBs generally improves the quality of the MDBs' assets. Where applicable, the following financial information is presented to assess asset quality of the MDBs.

Concentration of loans to the MDBs' five largest borrowers or countries of operation indicates the impact that an economic downturn in a specific region or country could have on the loan portfolio.

Nonaccrual loans as a percentage of total loans outstanding indicates the percentage of the MDB's loan portfolio that is currently nonperforming.

Loan loss allowance as a percentage of total loans outstanding indicates how much the MDB estimates it will lose due to nonperformance or default as a result of credit risk related to its loan portfolio.

Loan loss allowance as a percentage of total nonaccrual loans indicates the sufficiency of the MDB's allowances for estimated losses compared to its currently nonperforming portfolio.

Capital quality as it relates to the MDBs refers to the composition of capital as well as the portion of callable capital from the more creditworthy members. Where applicable, the following financial information is presented to assess the capital quality of the MDBs.

Paid-in capital as a percentage of total subscribed capital indicates the portion of subscribed capital that has been actually paid by members.

AAA rated[23] *callable capital as a percent of total callable capital* indicates the quality of capital that has been subscribed but not paid-in

[23] See table 3 for definitions of credit ratings.

by members. The quality of callable capital is important as a gauge of the ability of members to meet a capital call in the unlikely event that an MDB cannot service its debt.

Gearing ratios, as they relate to the MDBs, are measures of loans outstanding compared to the different types of capital available to the MDB. MDBs establish policies on gearing, which limit the ratio of outstanding loans to capital and reserves, to address the inherent risks of their lending activities. Where applicable, the following financial information is presented for the MDBs to use in assessing gearing.

Net disbursed loans as a percentage of paid-in capital plus reserves indicates the ability to absorb borrower defaults without resorting to capital calls. Paid-in capital plus reserves is a measure of funds actually available to the MDB.

Net disbursed loans as a percent of AAA callable capital plus paid-in capital and reserves indicates the ability of the MDB to absorb defaults.

Leverage is a measure of the MDB's outstanding debt compared to the different types of its capital. Similar to gearing ratios, leverage limitations are established by some of the MDBs to address the inherent risks of their activities. Where applicable, the following financial information is presented for the MDBs to use in assessing leverage.

Outstanding debt as a percentage of paid-in capital plus reserves provides a comparison of an MDB's outstanding debt with its paid-in capital plus reserves for funding its operations.

Outstanding debt as a percentage of AAA callable capital plus paid-in capital and reserves indicates the MDB's ability to meet its outstanding debts with the support of the most creditworthy countries.

Liquidity is a measure of an MDB's ability to pay its current debt service and to fund its lending operations on a timely basis. The MDBs' assets from their lending operations are relatively illiquid. Therefore, MDBs must rely on sufficient liquid assets, such as investments in marketable securities, to ensure timely payment of debt service and disbursement of new loans. Where applicable, the following financial information is presented for the MDBs to use in assessing liquidity.

Liquid assets as a percentage of undisbursed loans plus 1 year of debt service indicates how well MDBs are able to meet their current obligations.

Administrative expenses ratio is a measure of administrative expenses compared to total expenses.

Administrative expenses as a percentage of total expenses indicates the portion of total expenses attributable to administrative activities of the MDBs.

Profitability ratio measures how well an entity performed during a given time period, usually a year. Although MDBs' primary objective is to promote economic and social development and not to maximize profits, MDBs do seek to earn adequate income to cover their operational costs and to build adequate reserves.

Net operating income as a percent of average assets is the rate of return on an MDB's assets for the year and is a key measure of the MDB's profitability.

Because MDBs follow different accounting standards to prepare financial data, use different methodologies to estimate loan losses, and have different policies relating to nonaccrual loans, caution must be taken when comparing financial results. Further, MDBs serve different purposes and borrowers, which also affects the comparability of financial data.

Credit Ratings

Credit ratings are useful for assessing the MDB itself as well as its borrowers and members. Credit ratings apply to the MDBs insofar as they borrow in the market place to finance their lending activities. The credit ratings of borrowing countries also apply to MDBs insofar as the creditworthiness of an MDB's borrowers affects the MDB's loan portfolios. A credit rating is intended to convey a current evaluation of a borrower's overall creditworthiness to pay its financial obligations. The borrower's capacity and willingness to pay its obligations are taken into account in establishing a rating. Table 3 summarizes Standard & Poor's long-term credit ratings. Borrowers rated AAA and AA are considered to have a very strong capacity for meeting financial commitments. Borrowers rated A and BBB have a strong-to-adequate capacity to meet financial commitments but with some susceptibility to adverse changes in circumstances. Borrowers rated BB, B, CCC, and CC have uncertainties and vulnerabilities in their abilities to meet their financial obligations, with BB indicating the least degree of uncertainty and vulnerability within that range and CC, the highest. BB through CC borrowers will likely have some mitigating quality and protective characteristics; however, these may be outweighed by great uncertainties or major exposures to adverse conditions. Ratings from AA to CCC may be modified with a plus (+) or minus (-) sign to show the relative standing within the major rating categories.

Table 3: Standard & Poor's Long-Term Credit Rating Definitions

Category	Credit rating definition
AAA	Extremely strong capacity to meet its financial commitments. This is the highest rating available.
AA	Very strong capacity to meet its financial commitments.
A	Strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than higher rated categories.
BBB	Adequate capacity to meet financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet financial commitments.
BB	Less vulnerable in the near future than the lower-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the borrower's inadequate capacity to meet financial commitments.
B	More vulnerable than the borrower rated BB, but currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial commitments.
CCC	Currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.
CC	Currently highly vulnerable.
Selective Default	Borrower has failed to pay one or more of its financial obligations when due. This rating is given when it is believed that the borrower has selectively defaulted on a specific obligation but will continue to meet its payment obligations on other obligations in a timely manner.

Source: Standard & Poor's, *Counterparty Ratings Guide*.

Despite the risks associated with the MDBs' operations, many factors contribute to the generally high credit ratings several of the MDBs received from Standard & Poor's. These factors include capital contributions and subscriptions from highly rated members, preferred creditor status attributed to obligations to the MDBs by borrowing members, and the MDBs' overall conservative financial policies. Table 4 shows the credit ratings for six MDBs that primarily borrow from world capital markets to finance their lending activities.

Table 4: Standard & Poor's Credit Ratings of Multilateral Development Banks as of September 2000

Multilateral Development Bank	Credit rating and outlook
International Bank for Reconstruction and Development	AAA with a stable outlook for the future
International Finance Corporation	AAA with a stable outlook for the future
African Development Bank	AA+ with a negative outlook for the future
Asian Development Bank – Ordinary Capital Resources	AAA with a stable outlook for the future
Inter-American Development Bank – Ordinary Capital	AAA with a stable outlook for the future
European Bank for Reconstruction and Development	AAA with a stable outlook for the future

Source: Standard & Poor's, *Supranationals Special Edition 2000*, September 2000.

U.S. Involvement in the Multilateral Development Banks

The Congress appropriates funds for U.S. contributions to the MDBs. The United States has provided a total of $40 billion to the MDBs included in this report. The largest cumulative U.S. contribution, $25.8 billion, has been made to the International Development Association. The United States has also subscribed to callable capital of $68.8 billion to the MDBs included in this report. The largest subscriptions of callable capital have been to the International Bank for Reconstruction and Development and the Inter-American Development Bank's Ordinary Capital for $29.9 billion and $29 billion, respectively. For each of the MDBs included in our report, table 5 summarizes resources the United States has provided to the MDBs from inception through December 31, 1999, except for the MDBs affiliated with the World Bank Group, whose data are as of June 30, 2000. The United States is the largest member in most of these MDBs.

Table 5: Resources Provided to the Multilateral Development Banks From the United States (Dollars in millions)

Multilateral Development Bank	U.S. paid-in capital or contributions	U.S. callable capital	Total U.S. subscriptions[a]	U.S. percent of total subscriptions within each MDB
World Bank Group				
International Bank for Reconstruction and Development	$1,998.4	$29,966.2	$31,964.5	16.95
International Development Association	25,841.8	Not applicable[b]	25,841.8	24.28
International Finance Corporation	569.4	Not applicable[b]	569.4	24.16
Multilateral Investment Guaranty Agency	45.2	181.3	226.5	17.79
African Development Bank Group				
African Development Bank	153.3	1,073.0	1,226.3	5.34
African Development Fund	1,560.6	Not applicable[b]	1,585.2[c]	11.03
Asian Development Bank				
Ordinary Capital Resources	531.1	7,052.8	7,583.9	15.93
Asian Development Fund	2,647.9	Not applicable[b]	2,647.9	12.95
Inter-American Development Bank				
Ordinary Capital	1,303.0	29,006.7	30,309.7	30.04
Fund for Special Operations	4,798.2	Not applicable[b]	4,798.2	49.75
Inter-American Investment Corporation	51.0	Not applicable[b]	51.0	25.04
European Bank for Reconstruction and Development	527.4	1,481.8	2,009.2	10.18
Total	**$40,027.3**	**$68,761.8**	**$108,813.6**	

Note: Data are as of December 31, 1999, except for the banks affiliated with the World Bank Group, for which the data are as of the June 30, 2000, fiscal year-end. These were the most recent data available from the MDBs' audited financial statements.

[a]There are some differences between the amounts reported in the MDBs' audited financial statements and Treasury data.

[b]This MDB does not finance development activities with borrowing from world capital markets and, therefore, does not rely on callable capital. Operations are financed primarily through industrialized member country contributions.

[c]The difference of $24.6 million between the amount of paid-in and total subscriptions represents an installment due from the United States for payment under the eighth replenishment agreement to the African Development Fund as of December 31, 1999.

Source: Multilateral Development Banks' audited financial statements.

Tables 6 and 7 provide a summary of U.S. appropriations for contributions and approved callable capital subscriptions to the MDBs for fiscal years 1996 through 2001.

Table 6: U.S. Appropriations for Contributions to the Multilateral Development Banks for Fiscal Years 1996 through 2001 (Dollars in millions)

Multilateral Development Bank	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
World Bank Group						
International Bank for Reconstruction and Development	$28.2	$0.0	$0.0	$0.0	$0.0	$0.0[a]
International Development Association	700.0	700.0	1,034.5	800.0	775.0	775.0
International Finance Corporation	60.9	6.7	0.0	0.0	0.0	0.0
Multilateral Investment Guaranty Agency	0.0	0.0	0.0	0.0	4.0	10.0
African Development Bank Group						
African Development Bank	0.0	0.0	0.0	0.0	4.1	6.1
African Development Fund	0.0	0.0	45.0	128.0	128.0	100.0
Asian Development Bank						
Ordinary Capital Resources	13.2	13.2	13.2	13.2	13.7	0.0
Asian Development Fund	0.0	100.0	150.0	210.0	77.0	72.0
Inter-American Development Bank						
Ordinary Capital	26.0	25.6	25.6	25.6	25.6	0.0
Fund for Special Operations	10.0	10.0	20.8	21.2	0.0	0.0
Inter-American Investment Corporation	0.0	0.0	0.0	0.0	16.0	25.0
European Bank for Reconstruction and Development	70.0	11.9	35.8	35.8	35.8	35.8
Total	**$908.3**	**$867.4**	**$1,324.9**	**$1,233.8**	**$1,079.2**	**$1,023.9**

Note: Not all MDBs received appropriations for contributions in each fiscal year.

[a]The International Bank for Reconstruction and Development is the trustee for the Global Environment Facility, which was appropriated $108 million during fiscal year 2001.

Source: Congressional Research Service, *Multilateral Development Banks: U.S. Contributions FY 1989-2000, February 10, 2000*, Jonathan E. Stanford and P.L. 106-429.

Table 7: U.S. Approved Callable Capital Subscriptions to the Multilateral Development Banks for Fiscal Years 1996 through 2001 (Dollars in millions)

Multilateral Development Bank	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
World Bank Group						
International Bank for Reconstruction and Development	$911.4	$0.0	$0.0	$0.0	$0.0	$0.0
Multilateral Investment Guaranty Agency	0.0	0.0	0.0	0.0	20.0	50.0
African Development Bank Group						
African Development Bank	0.0	0.0	0.0	0.0	64.0	97.5
Asian Development Bank						
Ordinary Capital Resources	647.9	647.9	647.9	647.9	672.2	0.0
Inter-American Development Bank						
Ordinary Capital	1,523.8	1,503.7	1,503.7	1,503.7	1,503.7	0.0
European Bank for Reconstruction and Development	163.3	27.8	123.2	123.2	123.3	123.2
Total	**$3,246.4**	**$2,179.4**	**$2,274.8**	**$2,274.8**	**$2,383.2**	**$270.7**[a]

[a]The amount of U.S. approved callable capital subscriptions significantly decreased in fiscal year 2001 because only three of these MDBs were in a replenishment period. The amount needed for subscriptions to callable capital should be expected to increase as members agree to further capital replenishments for the MDBs.

Source: Congressional Research Service, *Multilateral Development Banks: U.S. Contributions FY 1989-2000*, February 10, 2000, Jonathan E. Stanford and P.L. 106-429.

The Department of the Treasury oversees U.S. interests in the MDBs. The Secretary of the Treasury currently serves as the U.S. governor on each MDB board of governors. The United States has executive directors that are presidentially approved and confirmed by the U.S. Senate and that serve full-time on each MDB board of executive directors. Over time, the Congress has enacted many legislative policy mandates with respect to the MDBs. Many of the mandates direct the Secretary of the Treasury to instruct the U.S. executive directors to use their “voice” and “vote” to pursue certain U.S. policies. These mandates, addressing a variety of issues, specify what U.S. policy shall be in particular situations or how the U.S. executive directors shall vote on particular issues. Voting shares of the MDBs are allocated to member countries based primarily on capital subscriptions or contributions but may also be affected by requirements established in some of the regional MDBs’ articles that allow regional member countries to maintain a certain level of control over operations. Table 8 summarizes the U.S. voting percentages at each MDB.

Table 8: U.S. Voting Percentage at the Multilateral Development Banks

Multilateral Development Bank	U.S. voting percentage	U.S. share compared to other member countries
World Bank Group		
International Bank for Reconstruction and Development	16.49	The U.S. has the largest voting share of any member country.
International Development Association	14.83	The U.S. has the largest voting share of any member country.
International Finance Corporation	23.73	The U.S. has the largest voting share of any member country.
Multilateral Investment Guaranty Agency	14.60	The U.S. has the largest voting share of any member country.
African Development Bank Group		
African Development Bank	5.32	The U.S. has the largest voting share of any nonregional member country; however, combined regional members maintain 62.5 percent of the total voting shares.
African Development Fund	6.20	The U.S. has the second largest voting share of a member country; the African Development Bank maintains 50 percent of the total voting shares.
Asian Development Bank		
Ordinary Capital Resources	13.09	The U.S. and Japan, a regional member, have the largest and equal voting shares.
Asian Development Fund	13.09[a]	Voting shares are the same as the Asian Development Bank's Ordinary Capital Resources.
Inter-American Development Bank		
Ordinary Capital	30.03	The U.S. has the largest voting share of any member country; however, regional members combined maintain 50.1percent of the total voting shares.
Fund for Special Operations	30.03[b]	Voting shares are the same as Inter-American Development Bank's Ordinary Capital.
Inter-American Investment Corporation	25.04	The U.S. has the largest voting share of any member country.
European Bank for Reconstruction and Development	10.28	The U.S. has the largest voting share of any member country.

Note: Data are as of December 31, 1999, except at the banks affiliated with the World Bank Group, which have a different fiscal year-end and the data are as of June 30, 2000. These were the most recent data available.

[a]The 1999 annual report of the Asian Development Bank did not indicate how the voting shares of the Asian Development Fund are allocated among its members. However, the Congressional Research Service has reported that the Fund's voting shares are the same as the Ordinary Capital Resources.

[b]The 1999 annual report of the Inter-American Development Bank did not specifically indicate how the voting shares of the Fund for Special Operations are allocated among its members. However, the articles of agreement establishing the Inter-American Development Bank indicate that the voting shares of the Fund are determined in the same manner as the voting shares of the Bank. These provisions indicate that the U.S. voting share shall not be below 30 percent.

Source: Multilateral Development Banks' audited financial statements, except where noted.

The following sections present more details on the MDBs and their related entities in which the United States has provided resources. These sections include summary information on the MDB background and mission, development activities, financing, and key financial data from the last 3 fiscal years.

The World Bank Group

The World Bank Group's members include developing and industrialized countries around the world. The group includes four institutions, or lending arms, which provide different functions in carrying out the its mission of fighting poverty and improving the standard of living in developing countries throughout the world. These four institutions, discussed in more detail in the remainder of this section, are as follows:

- The International Bank for Reconstruction and Development (IBRD)—the oldest and, based on total assets, the largest MDB—is the World Bank entity that provides market-based loans, guarantees, and technical assistance to middle-income countries and more creditworthy poorer countries.
- The International Development Association is the World Bank's concessional lending arm and provides support for the bank's poorer member countries.
- The International Finance Corporation provides loans, equity investments, and technical assistance for private sector enterprises.
- The Multilateral Investment Guaranty Agency provides guarantees to foreign investors against loss caused by noncommercial risks, as well as technical assistance to host governments.

International Bank for Reconstruction and Development

IBRD is a member of the World Bank Group and was established in 1945. The principal stated purpose of IBRD is to reduce poverty by promoting sustainable economic development. IBRD seeks to achieve this goal by providing loans, guarantees, and technical assistance for projects and programs of economic reform to its developing member countries, which are primarily middle-income and creditworthy poorer countries not limited to a specific region of the world. As reported in its fiscal year 2000 financial statements, IBRD had 181 members, of which 98 were borrowing countries. IBRD does not operate to maximize profits but seeks to earn adequate net income to ensure its financial strength and to support its development activities.

Development Activities

The primary vehicle of IBRD development assistance is direct lending. All of IBRD's loans are made to or guaranteed by members, except for loans to the World Bank Group's International Finance Corporation. IBRD offers several different loan products in a variety of currencies to meet the needs of its borrowers. In general, IBRD charges interest rates that are based on either IBRD's average cost of borrowing plus a spread or the London Interbank Offer Rates (LIBOR)[24] plus a spread. Repayment periods and grace periods depend on the type of loan or the borrower's repayment abilities. The choice in financial terms is intended to provide borrowers with the flexibility to select terms that are both compatible with their debt management strategy and suited to their debt servicing capability. As of June 30, 2000, IBRD's loans outstanding totaled approximately $120 billion, including $2.0 billion in nonaccrual status. As shown in table 9, nearly 42 percent of this outstanding balance is from IBRD's five largest borrowing countries.

Table 9: Concentration of Loans Outstanding to IBRD's Five Largest Borrowers as of June 30, 2000

Five largest borrowers	Loans outstanding (in millions)	Percentage of total loans outstanding	Standard & Poor's credit rating[a]
Indonesia	$11,755	9.79	B-
Mexico	11,111	9.25	BB+
China	10,719	8.93	BBB
Argentina	8,292	6.90	BB-
Republic of Korea	8,160	6.79	BBB
Total	**$50,037**	**41.66**	

[a]Credit rating is based on the most recent rating prior to January 1, 2001, for the borrowing country.

Sources: IBRD's fiscal year 2000 audited financial statements and Standard & Poor's, *Sovereign Ratings History Since 1975*.

In fiscal year 2000, IBRD approved loans of about $10.9 billion to developing countries for projects and programs in various sectors. During fiscal year 2000, human development projects and programs were among IBRD's lending priorities. These efforts are aimed at education, health, nutrition, and social protection. Strengthening the financial sector and improving public sector management and infrastructure needs, including transportation, telecommunications, and water supplies, were also a focus

[24]LIBOR, a commonly used index for international lending, represents key interest rates at which the major banks in the London interbank market are willing to lend funds to each other at various maturities and for different currencies. LIBOR is a key floating rate pricing benchmark for loans and debt instruments in the global financial markets. These rates are published daily by the Bank of England and are based on sampling from a group of reference banks that are active in the Eurocurrency market, but agreements that use LIBOR do not necessarily rely on quotes published by the Bank of England.

of fiscal year 2000 approvals. Development efforts in these areas are aimed at attracting private sector investment and poverty reduction in developing countries. In fiscal year 2000, Turkey received the greatest amount of new IBRD commitments, with approximately $1.8 billion in support of structural and social reforms, including over $750 million in response to a severe earthquake in the region.

Financing Activities

IBRD's operations are financed through retained earnings, paid-in capital, and borrowings obtained from world capital markets using callable capital as backing. As of June 30, 2000, AAA-rated countries accounted for 44 percent of IBRD's total callable capital. Based on its strong membership support and preferred creditor status, among other factors, IBRD received a AAA credit rating with a stable outlook for the future from Standard & Poor's during September 2000. The quality of IBRD's callable capital and its AAA credit rating allow the bank to borrow funds from world capital markets at favorable interest rates for long loan terms. This results in IBRD's ability to pass on more favorable lending terms to borrowers than would normally be available to them based on their own credit standing.

Key Financial Data

IBRD's financial statements are prepared in accordance with U.S. GAAP and International Accounting Standards. IBRD received an unqualified audit opinion on its financial statements from Deloitte Touche Tohmatsu for fiscal years 1998 through 2000. Table 10 summarizes key financial data related to IBRD's results of operations over the past 3 fiscal years.

Table 10: Key Financial Data for IBRD for Fiscal Years 1998 through 2000

Financial data	2000	1999	1998
(Dollars in millions)			
Total assets	$227,810	$230,808	204,971
Loans outstanding	120,104	117,228	106,576
Undisbursed loans	44,754	51,372	51,065
Debt outstanding	110,379	115,739	103,589
Retained earnings	19,027	17,709	16,733
Paid-in capital	9,748	9,549	9,398
Total subscribed capital	188,606	188,220	186,436
Revenues	10,045	9,513	8,561
Expenses	8,054	7,995	7,318
Net operating income	1,991	1,518	1,243
Financial ratios	**2000**	**1999**	**1998**
(Percentages)			
Asset quality			
Nonaccrual loans / loans outstanding	1.7	1.8	1.9
Loan loss allowance / loans outstanding	2.8	3.0	3.0
Loan loss allowance / nonaccrual loans	167.4	173.4	158.5
Capital quality			
Paid-in capital / total subscribed capital	5.2	5.1	5.0
AAA callable capital / total callable capital	43.9	44.0	44.5
Gearing			
Net disbursed loans / (paid-in capital + reserves)	405.6	417.0	395.5
Net disbursed loans / (AAA callable capital + paid-in capital + reserves)	109.4	108.1	99.4
Leverage			
Debt outstanding / (paid-in capital + reserves)	383.6	424.6	396.4
Debt outstanding / (AAA callable capital + paid-in capital + reserves)	103.5	110.1	99.6
Liquidity			
Liquid assets / (undisbursed loans + 1-year debt service)[a]	35.4	37.2	33.6
Administrative expenses and profitability			
Administrative expenses / total expenses	11.6	10.6	10.4
Net operating income / average assets	0.9	0.7	0.7

Note: Data are as of June 30 of the applicable fiscal year.

[a]Liquidity ratio was taken from Standard & Poor's *Supranationals Special Edition 2000*, September 2000.

Source: Data used in calculating these ratios were taken from IBRD's audited financial statements for fiscal years 1998 through 2000, except where noted.

International Development Association

The International Development Association (IDA) was established in 1960 and is the concessional lending arm of the World Bank Group. IDA primarily supports poverty reduction by providing interest-free loans, called "credits," to the poorest developing countries throughout the world. IDA also provides loan guarantees and technical assistance. In order to qualify for IDA lending, a country's per capita income in 1999 had to be equivalent to less than U.S. $885, and the country had to have only limited or no creditworthiness for IBRD lending. IDA's concessional lending is targeted to building the human capital, policies, institutions, and physical infrastructure needed to bring about equitable and sustainable growth. Specifically, many development projects address basic human needs, such as primary education, health services, clean water, and sanitation. IDA also funds projects that protect the environment, improve conditions for private business, build infrastructure, and support reforms that are aimed at liberalizing countries' economies.

Development Activities

IDA credits generally have maturities of 35 or 40 years and offer 10-year grace periods on repayment of principal. There is no interest charge, but credits do carry a small service charge, currently 75 basis points of disbursed balances. As of June 30, 2000, IDA's outstanding credits totaled approximately $86 billion, including $4.2 billion of credits in nonaccrual status. As shown in table 11, nearly 48 percent of IDA's total credits outstanding were due from IDA's five largest borrowing countries.

Table 11: Concentration of Credits Outstanding to IDA's Five Largest Borrowers as of June 30, 2000

Five largest borrowers	Credits outstanding (in millions)	Percentage of total credits outstanding	Standard & Poor's credit rating[a]
India[b]	$18,853	21.96	BB
China[c]	8,695	10.13	BBB
Bangladesh	6,402	7.46	Not rated[d]
Pakistan[b]	3,857	4.49	B-
Ghana	3,037	3.54	Not rated[d]
Total	**$40,844**	**47.58**	

[a]Credit rating is based on the most recent rating prior to January 1, 2001, for the borrowing country.

[b]India and Pakistan are classified as "blend borrowers" that are eligible for IDA and IBRD lending. As the creditworthiness of these countries improves, their use of IDA lending should be expected to decline.

[c]As of June 30, 1999, China is no longer eligible for IDA credits.

[d]Standard & Poor's has not issued a credit rating for this country.

Source: IDA's fiscal year 2000 audited financial statements and Standard & Poor's, *Sovereign Ratings History Since 1975*.

During fiscal year 2000, IDA approved approximately $4.4 billion in new credits to 52 countries. Nearly half of this new lending went to countries in Africa. The human development sector—which includes education, health and nutrition, and social protection—received approximately 38 percent of IDA's lending during this period. India was the largest recipient of IDA credit approvals during fiscal year 2000, with IDA providing nearly $867 million in support of various projects. The next largest borrowers, Tanzania and Vietnam, received approximately $330 million and $286 million, respectively, in support of structural and social reform.

Financing

IDA's concessional lending is financed primarily through developed member country contributions, repayments of outstanding credits by borrowers, services charges, and investment income. Since IDA does not charge interest to its borrowers, periodic contributions called replenishments are needed for IDA to continue its lending operations. These replenishments generally cover a 3-year period. In 1998, member countries agreed to the twelfth replenishment, which would allow lending of approximately $20.5 billion for fiscal years 2000 through fiscal year 2002. This replenishment included $11.6 billion of member country contributions, a $0.9 billion contribution from IBRD's net income, and $8.0 billion from IDA's own funds, consisting of borrower repayments and investment income.

Key Financial Data

Due to the special nature and organization of IDA, financial statements are prepared for the specific purpose of reflecting the sources and uses of member contributions and other development resources. IDA's special-purpose financial statements are prepared to comply with procedures set forth in its Articles of Agreement and agreed upon by members. Under IDA's special accounting procedures, management has elected to present loans at the full face value and does not estimate a loan loss allowance related to its loan portfolio. The financial statements are not meant to comply with U.S. GAAP or International Accounting Standards. IDA received an unqualified audit opinion on its financial statements from Deloitte Touche Tohmatsu for fiscal years 1998 through 2000. Table 12 summarizes some of the key financial data concerning IDA's financial position over the past 3 fiscal years.

Table 12: Key Financial Data for IDA for Fiscal Years 1998 through 2000 (Dollars in millions)

Financial data	2000	1999	1998
Resources available for development activities	$22,209	$20,947	$21,542
Undisbursed credits	18,944	20,104	19,892
Credits outstanding	85,852	83,158	78,016
Nonaccrual credits	4,190	4,213	3,723
Cumulative member contributions	99,300	95,584	92,043

Note: Data are as of June 30 of the applicable fiscal year.

Source: IDA's audited financial statements for fiscal years 1998 through 2000.

International Finance Corporation

The International Finance Corporation (IFC) is a member of the World Bank Group and was established in 1956 to further economic growth in its developing member countries by promoting private sector development. IFC's primary objective is to provide loans and equity investments to private sector enterprises where sufficient private capital is not otherwise available on reasonable terms. Unlike most MDBs, IFC loans are not guaranteed by benefiting countries. In addition, IFC provides technical assistance and financial advice to businesses and governments. Membership in IFC is open only to those countries that are members of the World Bank. IFC had 174 members at the end of fiscal year 2000.

Development Activities

According to IFC's Articles of Agreement, investments are to be made in productive private enterprises. To be eligible for IFC financing, projects must meet profitability and project viability criteria, benefit the economy of the host country, and comply with stringent developmental impact requirements. IFC's main investment activity is making loans for private entrepreneurial projects, which may involve expansions and modernization efforts. Its lending activities include cofinancing, loan syndication, underwriting, and guarantees, which act as a catalyst for additional project funding from other lenders and investors. IFC also makes equity investments, typically through the purchase of common or preferred stock.

As of June 30, 2000, IFC's outstanding loan and equity investment portfolio was $10.9 billion, an increase of 9 percent over the previous year's portfolio of $10 billion. Loans account for the major part of the financing provided by IFC, representing $8.3 billion or about 76 percent of the outstanding portfolio, while equity investments of $2.6 billion or about 24 percent of its outstanding portfolio were held by IFC as of June 30, 2000.

IFC provides loans and equity investments for a wide range of sectors to promote development in its member countries located throughout the world. The two largest sectors are financial services and infrastructure, which accounted for $4.7 billion or 43 percent of its $10.9 billion loan and equity investment portfolio. Other sectors include mining, agribusiness, manufacturing, chemicals, timber, textile, and tourism. As of June 30, 2000, approximately $4.3 billion or 39 percent of IFC's outstanding loan and equity investment portfolio related to development in the Latin America and Caribbean region. This region has received $4.3 billion of $10.9 billion or 39 percent of IFC's loan and equity investment portfolio.

As shown in table 13, 40 percent of IFC's cumulative financing has been provided to five countries. Since IFC loans are made to the private sector and are not guaranteed by a member, the risk related to individual projects is more meaningful than the credit rating of the member country in which the project is located.

Table 13: IFC's Five Largest Countries of Operations Based on Cumulative Lending and Investments as of June 30, 2000

Five largest countries of operations	Cumulative lending and investments (in millions)	Percentage of total lending and investment
Brazil	$4,948	10.24
Argentina	4,882	10.11
Mexico	4,054	8.39
Turkey	2,892	5.99
Thailand	2,664	5.51
Total	$19,940	40.24

Source: IFC's fiscal year 2000 audited financial statements.

Financing

IFC raises most of the funds for its lending and equity investment activities by issuing notes, bonds, and debt securities in the international capital markets. IFC may borrow in the public markets of a member country only with approvals from that member. In fiscal year 2000, IFC borrowed $4.4 billion. As of June 30, 2000, IFC's total outstanding debt was $14.9 billion. Also, IFC finances its operations through borrowing from the World Bank's IBRD, paid-in capital, and retained earnings. As of fiscal year 2000, IFC had $2.4 billion of subscribed paid-in capital from its member countries.

Key Financial Data

IFC's financial statements are prepared in accordance with U.S. GAAP and with International Accounting Standards. IFC received an unqualified audit opinion on its financial statements from Deloitte Touche Tohmatsu for fiscal years 1998, 1999, and 2000. Table 14 summarizes key financial data related to IFC's results of operations over the past 3 fiscal years.

Table 14: Key Financial Data for IFC for Fiscal Years 1998 through 2000

Financial data	2000	1999	1998
(Dollars in millions)			
Total assets	$38,719	$33,456	$31,621
Loans outstanding	8,340	7,733	6,874
Equity investments outstanding	2,636	2,306	2,102
Debt outstanding	14,919	12,430	11,162
Reserves	3,373	2,993	2,746
Paid-in capital	2,360	2,352	2,338
Total subscribed capital	2,372	2,374	2,364
Revenues	1,682	1,517	1,573
Expenses	1,302	1,268	1,361
Net operating income	380	249	212
Financial ratios	**2000**	**1999**	**1998**
(Percentages)			
Asset quality			
Nonaccrual loans / loans outstanding	11.1	11.1	9.2
Loan loss allowance / loans outstanding	14.7	14.5	14.2
Loan loss allowance / nonaccrual loans	133.2	130.5	154.3
Gearing			
Net disbursed loans / (paid-in capital + reserves)	156.4	153.7	146.6
Leverage			
Debt outstanding / (paid-in capital + reserves)	260.2	232.6	219.6
Liquidity			
Liquid assets / (undisbursed loans + one year debt service)[a]	322.5	286.8	207.0
Administrative expenses and profitability			
Administrative expenses / total expenses	20.5	20.3	16.0
Net operating income / average assets	1.1	0.8	0.7

Note: Data are as of June 30 of the applicable fiscal year.

[a]Liquidity ratio was taken from Standard & Poor's, *Supranationals Special Edition 2000*, September 2000.

Source: Data used in calculating these ratios were taken from IFC's audited financial statements for fiscal years 1998 through 2000, except where noted.

Multilateral Investment Guaranty Agency

The Multilateral Investment Guaranty Agency (MIGA) is a member of the World Bank Group and was established in 1988. Unlike the other entities of the World Bank, MIGA does not provide loans to member governments or private enterprises. Instead, MIGA provides investment guarantees and insurance to foreign investors. The guarantees and insurance are intended to stimulate foreign investment in developing countries by private investors and commercially operated public sector companies. MIGA also provides technical assistance to host governments advising on ways to enhance their ability to attract foreign direct investment. MIGA's operations are structured to supplement the activities of the other institutions of the World Bank Group. MIGA had 152 member countries at June 30, 2000.

Investment Guarantees

To meet its objectives of promoting economic growth and development, MIGA provides investment guarantees for up to 20 years against the political risks of: (1) transfer restrictions,[25] (2) expropriation,[26] (3) breach of contract, and (4) war and civil disturbances in the host country. Investments eligible for MIGA guarantees include equity, loans, and loan guarantees, provided that contractual commitments have terms of at least 3 years. Generally, guarantees can be made for up to 90 percent of the investment contribution, plus additional amounts to cover earnings or interest. MIGA seeks to guarantee those investment projects that contribute to the host country's needs and are also financially, economically, and environmentally sound.

MIGA obtains reinsurance[27] to augment its underwriting capacity and to protect portions of its insurance portfolio. The difference between MIGA's total guarantees outstanding and the portion of its portfolio covered by reinsurance is MIGA's net exposure. Although MIGA remains liable for the entire guaranteed amount, the reinsurance provides MIGA with a source of recovery in the event that it must cover an insured incident.

MIGA's outstanding investment guarantees at the end of fiscal year 2000 were $4.4 billion. During fiscal year 2000, outstanding guarantees increased by 19 percent from $3.7 billion to $4.4 billion. MIGA's guarantee

[25]Transfer restrictions refer to difficulty or inability in converting local currency into nonlocal currency. This condition can arise from deterioration of conditions governing currency conversion, changes in currency exchange laws, and government action that creates delays in acquiring foreign exchange. Currency devaluation is not considered a transfer restriction.

[26]Expropriation refers to acts by a host government that reduce or eliminate ownership, control, or rights to private investment.

[27]Reinsurance is the transfer of the guarantee risk and premiums to another insurance entity.

investment portfolio is diversified across several sectors. The financial sector accounts for $1.5 billion, or 34 percent, followed by the infrastructure sector, which accounts for $1.3 billion, or 29 percent of the portfolio. Investment guarantees are made throughout the developing regions in the world. The Latin America and Caribbean region accounts for a significant portion of the outstanding portfolio with $2.2 billion of investment guarantees, or 51 percent of the portfolio. The majority of the guarantees were granted to investors from the Netherlands, the United States, and the United Kingdom, and they account for 20.5 percent, 19.7 percent, and 15.6 percent, respectively.

Table 15: Five Largest Country Exposures in MIGA's Guarantee Portfolio as of June 30, 2000 (Dollars in millions)

Five largest country exposures	Guarantees outstanding	Net exposure (guarantees less reinsurance)	Percentage of total guarantees outstanding
Brazil	$631.4	$284.8	14.1
Argentina	431.3	203.7	9.6
Peru	329.9	186.4	7.4
Russia	269.1	127.0	6.0
Turkey	225.6	132.8	5.0
Total	**$1,887.3**	**$934.7**	**42.1**

Note: Since MIGA's guarantees insure the private sector, the credit rating of the developing member country is not applicable.

Source: MIGA's fiscal year 2000 audited financial statements.

Financing

MIGA finances its operations through member country subscriptions, which initially were 20 percent to paid-in capital and the remaining 80 percent to callable capital. In March 1999, MIGA's board of governors[28] approved an increase in capital resources to $2 billion, with the subscription period ending March 28, 2002. As of June 30, 2000, member countries have provided subscriptions totaling $1.27 billion, including $1 billion in callable capital. In addition to member subscriptions, MIGA earns income from premiums and fees for its guarantees and from its investments. In fiscal year 2000, MIGA had income from its guarantees of $29.5 million and investment income of $23.5 million.

Key Financial Data

MIGA's financial statements are prepared in accordance with U.S. GAAP and International Accounting Standards. MIGA received an unqualified

[28] MIGA refers to its board of governors as its Council of Governors.

audit opinion on its financial statements from Deloitte Touche Tohmatsu for fiscal years 1998, 1999, and 2000. Table 16 summarizes key financial data related to MIGA's results of operations over the past 3 fiscal years.

Table 16: Key Financial Data for MIGA for Fiscal Years 1998 through 2000

Financial data	**2000**	**1999**	**1998**
(Dollars in millions)			
Total assets	$723	$632	$519
Gross guarantees outstanding	4,365	3,675	2,862
Reinsurance on guarantees	1,549	1,068	636
Net exposure on guarantees	2,816	2,608	2,225
Reserves for claims	376	340	255
Retained earnings	55	44	34
Paid-in capital	148	121	115
Total subscribed capital	1,273	1,122	1,079
Revenues	56	49	192
Expenses	45	39	178
Net operating income	11	10	15
Financial ratios	**2000**	**1999**	**1998**
(Percentages)			
Guarantee quality			
Net exposure on guarantees / total guarantees outstanding	64.5	70.9	77.8
Reinsurance / total guarantees outstanding	35.5	29.1	22.2
Reserve for claims / total guarantees outstanding	8.6	9.3	8.9
Reserve for claims / net exposure on guarantees	13.3	13.0	11.5
Capital quality			
Paid-in capital / total subscribed capital	11.6	10.8	10.7
AAA callable capital / total callable capital	45.6	46.1	46.0
Administrative expenses and profitability			
Administrative expenses / total expenses	40.3	39.4	6.9
Net operating income / average assets	1.6	1.8	3.8

Note: Data are as of June 30 of the applicable fiscal year.

Source: Data used in calculating these ratios were taken from MIGA's audited financial statements for fiscal years 1998 through 2000.

African Development Bank Group

The African Development Bank Group includes the African Development Bank (AfDB) and the African Development Fund (AfDF)[29] which serve the development needs of Africa. AfDB provides market-based loans and other development assistance to the public and private sector. As of December 31, 1999, AfDB had outstanding loans of $9.3 billion. AfDF provides concessional loans, which provide key support to the bank's poorest members. As of December 31, 1999, AfDF had outstanding loans of $7.7 billion.

African Development Bank

AfDB is a regional MDB established in 1964. The principal stated purpose of AfDB is to promote sustainable economic growth and reduce poverty in Africa. In this effort, AfDB targets agriculture, rural development, human resources development, and private sector development. AfDB has 77 member countries, including 53 regional members, which account for approximately 63 percent of the bank's total subscribed capital. In its 1999 annual report, AfDB reported that only 13 of its borrowing member countries were eligible for AfDB resources, while 39 borrowing member countries were eligible solely for concessional assistance through AfDF.[30]

Development Activities

AfDB provides development assistance through market-based loans, loan guarantees, equity investments, cofinancing, and technical assistance. Except for private sector development loans, all of the bank's loans are made to or guaranteed by member countries. AfDB currently offers several types of loan products available in a variety of currencies to meet the needs of its borrowers. Interest rates are primarily based on the bank's cost of borrowing plus a spread. Loan repayment periods and grace periods vary according to the borrowers. As of December 31, 1999, AfDB had approximately $9.3 billion of outstanding loans, including $1.3 billion that were in nonaccrual status. As shown in table 17, approximately 60 percent of the bank's total loans outstanding are to its five largest borrowers.

[29] AfDB operates other special funds whose funds are maintained and accounted for separately from those of the bank.

[30] Private sector entities and distinct territories, or enclaves, within the member countries solely eligible for concessional lending may be eligible for AfDB lending.

Table 17: Concentration of Loans Outstanding to AfDB's Five Largest Borrowers as of December 31, 1999

Five largest borrowers	Loans outstanding (in millions)	Percentage of total loans outstanding	Standard & Poor's credit rating[a]
Morocco	$1,488	15.98	BB
Tunisia	1,410	15.15	BBB
Nigeria	1,042	11.20	Not rated[b]
Algeria	951	10.22	Not rated[b]
Cote d'Ivoire[c]	664	7.13	Not rated[b]
Total	**$5,555**	**59.68**	

[a]Credit rating is based on the most recent rating prior to January 1, 2001, for the borrowing country.

[b]Standard & Poor's has not issued a credit rating for this country.

[c]According to AfDB's 1999 Annual Report, Cote d'Ivoire is no longer eligible for market-based lending through the bank.

Source: AfDB's 1999 audited financial statements and Standard & Poor's, *Sovereign Ratings History Since 1975*.

As AfDB reported in its annual report, during 1999, it approved about $1.1 billion of new lending and equity investments, of which approximately $920 million, or 86 percent were loans to or guaranteed by member countries. The remaining approvals were for private sector loans, HIPC debt relief, equity investments, and emergency operations. The majority of the new loans to or guaranteed by member countries related to the agriculture sector and to policy and structural reforms to encourage an environment conducive to sustainable growth. For example, about $141 million was approved for Tunisia to improve efficiency in resource allocation for a competitive economy, and Zimbabwe received about $130 million to support government reform efforts to reallocate public expenditures to education, health, and poverty reduction activities.

Also during 1999, AfDB contributed about $376 million for cofinancing operations with official agencies and private financial institutions to promote the flow of resources to its borrowing member countries. AfDF provided an additional $120 million toward these cofinancing operations. External sources provided an additional $1.8 billion to member country borrowers as a result of the bank group's cofinancing activities during 1999. These ventures related primarily to policy based programs, debt relief, poverty reduction, and the transportation sector. The World Bank was the largest cofinancing partner during 1999.

Financing Activities

AfDB's operations are financed through retained earnings, paid-in capital from members, and funds borrowed from world capital markets using callable capital as backing. As of December 31, 1999, AAA rated countries accounted for approximately 25.5 percent of AfDB's total callable capital. The major goal of AfDB's borrowing strategy is to minimize the cost of its funding, which is passed on to its borrowers, and to maximize the development impact of its operations. In 1999, the fifth capital increase intended to provide 35 percent more capital to AfDB became effective. As of December 31, 1999, 26 of AfDB's 77 member countries had deposited their subscriptions. In September 2000, based on conservative borrowing policies and an increased capital base, AfDB received a AA+ credit rating with a negative outlook for the future from Standard & Poor's because of the continual deterioration in the asset quality of its loan portfolio.

Key Financial Data

AfDB's financial statements are prepared in accordance with International Accounting Standards. AfDB received unqualified audit opinions on its financial statements from Deloitte & Touche LLP for 1997, 1998, and 1999. Table 18 summarizes key financial data related to AfDB's results of operations over the past 3 years.

Table 18: Key Financial Data for AfDB for 1997 through 1999

Financial data	1999	1998	1997
(Dollars in millions)			
Total assets	$12,587	$12,864	$12,044
Loans outstanding	9,309	9,520	9,256
Undisbursed loans	4,046	3,581	3,496
Debt outstanding	7,168	7,582	7,385
Reserves	1,668	1,572	1,372
Paid-in capital	2,121	2,134	2,046
Total subscribed capital	22,976	22,375	21,529
Revenues	811	837	891
Expenses	642	679	733
Net operating income	169	158	158
Financial ratios	**1999**	**1998**	**1997**
(Percentages)			
Asset quality			
Nonaccrual loans / loans outstanding	14.5	14.1	9.4
Loan loss allowance / loans outstanding	5.7	5.2	4.6
Loan loss allowance / nonaccrual loans	39.5	36.7	49.0
Capital quality			
Paid-in capital / total subscribed capital	9.2	9.5	9.5
AAA callable capital / total callable capital	25.5	21.5	21.4
Gearing			
Net disbursed loans / (paid-in capital + reserves)	231.7	243.6	258.3
Net disbursed loans / (AAA callable capital + paid-in capital + reserves)	98.0	113.8	118.3
Leverage			
Debt outstanding / (paid-in capital + reserves)	189.2	204.6	216.1
Debt outstanding / (AAA callable capital + paid-in capital + reserves)	80.1	95.6	98.9
Liquidity			
Liquid assets / (undisbursed loans + 1-year debt service)[a]	33.9	50.9	37.9
Administrative expenses and profitability			
Administrative expenses / total expenses	19.2	17.1	14.1
Net operating income / average assets	1.4	1.2	1.3

Note: Data are as of December 31 of the applicable year.

[a]Liquidity ratio was taken from Standard & Poor's *Supranationals Special Edition 2000*, September 2000.

Source: Data used in calculating these ratios were taken from AfDB's audited financial statements for 1997 through 1999, except where noted.

African Development Fund

AfDF is the concessional lending arm of the AfDB Group and was established in 1973. AfDF provides loans on concessional terms for projects and programs, as well as technical assistance to the bank group's low-income regional borrowing member countries that do not qualify for lending from AfDB. As of December 1999, 75 percent of the bank group's regional member countries were solely eligible for the Fund's concessional lending due to their credit standing, except for limited AfDB lending available for projects with the private sector and distinct territories within these member countries.

Development Activities

AfDF offers loans with very favorable loan terms, including no interest charges and extended repayment and grace periods. The fund does charge minimal service charges on outstanding loan balances and undisbursed commitments. As of December 31, 1999, AfDF's outstanding loans were approximately $7.7 billion, including $892 million in nonaccrual status. As shown in table 19, nearly 28 percent of the Fund's total loans outstanding were to AfDF's five largest borrowers.

Table 19: Concentration of Loans Outstanding to AfDF's Five Largest Borrowers as of December 31, 1999

Five largest borrowers	Loans outstanding (in millions)	Percentage of total loans outstanding	Standard & Poor's credit rating
Ethiopia	$653	8.50	Not rated[a]
Tanzania	484	6.29	Not rated[a]
Mali	377	4.91	Not rated[a]
Uganda	333	4.33	Not rated[a]
Malawi	301	3.92	Not rated[a]
Total	**$2,148**	**27.95**	

[a]Standard & Poor's has not issued a credit rating for this country.

Source: AfDF's 1999 audited financial statements and Standard & Poor's, *Sovereign Ratings History Since 1975*.

During 1999, AfDF approved about $630 million of new financing to the bank group's borrowing member countries. Approximately $518 million or 82 percent related to loans or lines of credit. The remainder related to technical assistance grants, HIPC debt relief, and other debt alleviation. The majority of the new loan approvals related to the agriculture sector, social sector, and multisector. Agriculture-related lending focused on improving output and food security, enhancing rural incomes, and reducing poverty. Social sector lending focused on improving access and quality of education and health services. Multisector lending included improving access to financial services, especially for women, and building the institutional and income-generating capabilities of target populations.

Financing

To continue lending operations, AfDF relies on net income, borrower repayments, and contributions from 27 members, including AfDB, which has contributed nearly 12 percent of AfDF's total contributions and maintains 50 percent of the voting shares. The eighth replenishment of the Fund was approved by the Board of Governors and became effective in December 1999. This replenishment authorized subscriptions for contributions of approximately $3.0 billion, which would enable AfDF to continue concessional lending from 1999 through 2001. As of December 31, 1999, $1.6 billion of the total contribution subscriptions authorized in the eighth replenishment were contributed.

Key Financial Data

Because of the special nature and organization of AfDF, financial statements are currently prepared for the specific purpose of reflecting the net development resources of the Fund. Under AfDF's special accounting basis, outstanding loans are not included in development resources available, and, accordingly, no allowance for possible loan losses is recorded. AfDF's special-purpose financial statements are prepared to comply with procedures set forth in its Articles of Agreement establishing the Fund and agreed upon by members. The financial statements are not meant to comply with International Accounting Standards. AfDF received an unqualified audit opinion on its financial statements from Deloitte & Touche LLP for 1997 through 1999. Table 20 summarizes some of the key financial data of AfDF's financial position over the past 3 years.

Table 20: Key Financial Data for AfDF for 1997 through 1999 (Dollars in millions)

Financial data	1999	1998	1997
Resources available for development activities	$3,773	$4,034	$3,698
Undisbursed loans	3,069	3,310	3,101
Loans outstanding	7,685	7,623	6,804
Nonaccrual loans	892	915	880
Cumulative member contributions	12,829	12,840[a]	11,512

Note: Data are as of December 31 of the applicable year.

[a]Member contributions for 1998 were greater than for 1999 due to a higher exchange rate for converting the monetary basis of AfDF's financial statements into the U.S. dollar equivalent applicable for 1998.

Source: AfDF's audited financial statements for 1997, 1998, and 1999.

Asian Development Bank

The Asian Development Bank (AsDB) group includes Ordinary Capital Resources (OCR) and the Asian Development Fund (AsDF), which serve the development needs of the Asian and Pacific regions. OCR provides market-based loans, equity investment, guarantees, and indirectly provides technical assistance[31] to middle-income countries and creditworthy poorer countries. As of December 31, 1999, OCR had outstanding loans of $28.3 billion. AsDF provides concessional loans and is key to supporting the bank's poverty reduction mission. As of December 31, 1999, AsDF had outstanding loans of $16.0 billion.

Asian Development Bank's Ordinary Capital Resources

AsDB is a regional bank established in 1966. As reported in its 1999 annual report, AsDB had 58 member countries, including 42 regional members, which had contributed approximately 64 percent of OCR's total subscribed capital. OCR's principal stated purpose is to reduce poverty in its Asian and Pacific region borrowing member countries through (1) economic growth projects and programs to facilitate employment and income generation for the poor, (2) social development programs to improve the standard of living for the poor, and (3) good governance to ensure that the poor have access to basic services. OCR also pursues activities to foster economic growth, support human development, improve the status of women, protect the environment, and encourage private sector development activities, which also serve the overall goal of reducing poverty.

Development Activities

OCR provides development assistance through market-based loans, loan guarantees, and cofinancing with the public and private sectors. OCR also finances equity investments in private enterprises and indirectly provides technical assistance, which is provided primarily through special funds operated by AsDB.[32] Except for private sector loans, all of the bank's loans are made to or guaranteed by borrowing member countries. AsDB offers several types of loan products available in a variety of currencies to meet the needs of its borrowers through its OCR. Interest rates are primarily based on the bank's cost of borrowing plus a spread, and repayment terms range from 4 to 30 years. As of December 31, 1999, OCR had $28.3 billion in outstanding loans, of which nearly 99 percent was loaned to or guaranteed by borrowing members and less than $73 million was in a nonaccrual status. As shown in table 21, approximately 79 percent of the total loans outstanding balance were due from the bank's five largest borrowers.

[31] This technical assistance is provided through special funds operated by AsDB.

[32] AsDB administers several special funds, including the concessional lending Asian Development Fund (discussed later in this report) whose funds and operations are separate from those of AsDB.

Table 21: Concentration of Loans Outstanding to AsDB's OCR Five Largest Borrowers as of December 31, 1999

Five largest borrowers	Loans outstanding (in millions)	Percentage of total loans outstanding	Standard & Poor's credit rating[a]
Indonesia	$6,926	24.43	B-
People's Republic of China	4,531	15.99	BBB
India	4,280	15.10	BB
Republic of Korea	4,076	14.38	BBB
Philippines	2,697	9.52	BB+
Total	**$22,510**	**79.42**	

[a]Credit rating is based on the most recent rating prior to January 1, 2001, for the borrowing country.

Source: AsDB's 1999 audited financial statements and Standard & Poor's, *Sovereign Ratings History Since 1975*.

During 1999, OCR approved about $3.9 billion in loans to private and public borrowers, including $2.5 billion related to cofinancing activities. The bank's concessional lending Asian Development Fund provided an additional $699 million in cofinancing activities. Combined, these cofinancing activities attracted an additional $3.0 billion from external sources to the bank's borrowing member countries. A significant portion of the bank's loans served the social infrastructure sector with projects relating to water supply and sanitation, education, health, housing, and other urban infrastructure facilities. The other sectors that received significant assistance related to energy, transportation, and communication. During 1999, the People's Republic of China was the largest borrower with about $1.2 billion in approved loans in the energy, social infrastructure, and transportation and communication sectors. Indonesia was the second largest borrower with loan approvals of about $1.0 billion related primarily to energy and health. Combined, these two countries accounted for approximately 58 percent of OCR's loan approvals during 1999.

Financing Activities

OCR's operations are financed through retained earnings, paid-in capital, and funds borrowed from world capital markets using callable capital as backing. As of December 31, 1999, AAA rated countries accounted for about 43 percent of OCR's total callable capital. AsDB's last general capital increase became effective in 1994. Based on AsDB's strong financial profile, conservative financial policies, and strong member support, AsDB received a AAA credit rating with a stable outlook for the future from Standard & Poor's in September 2000. The quality of OCR's callable capital and its AAA credit rating allow the bank to borrow funds from world capital markets at favorable interest rates and loan terms. This results in the bank's ability to pass on to borrowers more favorable lending terms than would normally be available based on their own credit standing.

Key Financial Data

AsDB's OCR financial statements are prepared in accordance with U.S. GAAP. OCR received unqualified audit opinions on its financial statements from PricewaterhouseCoopers for 1997 through 1999. Table 22 summarizes key financial data related to the results of operations for AsDB's OCR over the past 3 years.

Table 22: Key Financial Data for AsDB's OCR for 1997 through 1999[a]

Financial data	1999	1998	1997
(Dollars in millions)			
Total assets	$45,295	$41,653	$32,820
Loans outstanding	28,344	24,760	18,839
Undisbursed loans	13,594	14,260	16,432
Debt outstanding	26,286	23,744	17,494
Reserves	7,441	6,961	6,409
Paid-in capital	2,733	2,733	2,559
Total subscribed capital	47,597	48,456	46,411
Revenues	2,028	1,833	1,450
Expenses	1,578	1,366	982
Net operating income	450	467	468
Financial ratios	**1999**	**1998**	**1997**
(Percentages)			
Asset quality			
Nonaccrual loans / loans outstanding	0.3	0.2	0.2
Loan loss allowance / loans outstanding	0.3	0.2	0.3
Loan loss allowance / nonaccrual loans	100.0	117.1	122.9
Capital quality			
Paid-in capital / total subscribed capital	5.7	5.6	5.5
AAA callable capital / total callable capital	43.4	43.8	43.8
Gearing			
Net disbursed loans / (paid-in capital + reserves)	277.9	254.8	209.5
Net disbursed loans / (AAA callable capital + paid-in capital + reserves)	96.2	84.0	67.5
Leverage			
Debt outstanding / (paid-in capital + reserves)	258.4	244.9	195.1
Debt outstanding / (AAA callable capital + paid-in capital + reserves)	89.4	80.8	62.8
Liquidity			
Liquid assets / (undisbursed loans + 1-year debt service)[a]	44.4	39.2	48.1
Administrative expenses and profitability			
Administrative expenses / total expenses	6.7	8.9	9.7
Net operating income / average assets	1.0	1.3	1.5

Note: Data are as of December 31 of the applicable year.

[a]Liquidity ratio was taken from Standard & Poor's, *Supranationals Special Edition 2000*, September 2000.

Source: Data used in calculating these ratios were taken from AsDB's audited financial statements for 1997 through 1999.

Asian Development Fund

AsDF was established in 1974 and is the concessional lending arm of AsDB that provides loans to the bank's least developed borrowing member countries in the Asian and Pacific region. These are members which have low per capita gross national product and limited debt repayment capacity. AsDF supports activities that promote poverty reduction and improve the quality of life for the poor.

Development Activities

AsDF provides concessional loans to the bank's members at favorable interest rates and loan terms. Interest rates are 1.5 percent and repayment periods range from 24 to 32 years, including an 8-year grace period. The Fund requires borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies disbursed. As of December 31, 1999, AsDF had approximately $16.0 billion of outstanding loans, including $536 million in nonaccrual status. Approximately 76 percent of the Fund's balance of outstanding loans was due from its five largest borrowers.

Table 23: Concentration of Loans Outstanding to AsDF's Five Largest Borrowers as of December 31, 1999

Five largest borrowers	Loans outstanding (in millions)	Percentage of total loans outstanding	Standard & Poor's credit rating[a]
Bangladesh	$4,371	27.39	Not rated[b]
Pakistan	4,102	25.70	B-
Sri Lanka	1,615	10.12	Not rated[b]
Nepal	1,114	6.98	Not rated[b]
Philippines	892	5.59	BB+
Total	**$12,094**	**75.78**	

[a]Credit rating is based on the most recent rating prior to January 1, 2001, for the borrowing country.

[b]Standard & Poor's has not issued a credit rating for this country.

Source: AsDF's 1999 audited financial statements and Standard & Poor's, *Sovereign Ratings History Since 1975*.

During 1999, AsDF approved $1.1 billion in new loans, including $699 million of cofinancing lending, which primarily related to development in the transportation, communication, and social infrastructure sectors. During this period, Bangladesh was the largest borrower with about $250 million in loans approved in the energy, social infrastructure, and transportation and communication sectors. Vietnam was the second largest borrower with loan approvals for about $155 million primarily related to social infrastructure and industry sectors. Combined, these two countries accounted for approximately 38 percent of AsDF's loan approvals during 1999.

Financing

AsDF finances its operations with retained earnings, investment income, and contributions from 26 member countries, both regional and nonregional. AsDF's resources have been augmented by seven replenishments. The Board of Governors authorized the seventh replenishment in 1997. Under the replenishment, contributions were scheduled to become available to AsDF in four equal installments during 1997 through 2000. In 2000, the Board of Governors approved the eighth replenishment of AsDF resources.

Key Financial Data

AsDF's financial statements are prepared in accordance with U.S. GAAP. AsDF received an unqualified audit opinion on its financial statements from PricewaterhouseCoopers for 1997 through 1999. Table 24 summarizes key financial data related to AsDF's financial position over the past 3 years.

Table 24: Key Financial Data for AsDF for 1997 through 1999 (Dollars in millions)

Financial data	1999	1998	1997
Total assets	$22,192	$20,551	$18,279
Undisbursed loans	5,573	5,963	6,208
Loans outstanding	15,960	14,324	12,266
Nonaccrual loans	536	492	61
Loan loss allowance	7	6	6
Contributed resources	20,452	19,020	16,902

Note: Data are as of December 31 of the applicable year.

Source: AsDF's audited financial statements for 1997 through 1999.

Inter-American Development Bank

The Inter-American Development Bank (IDB) is the oldest and, based on total assets, largest regional MDB. It was established in 1959 to help accelerate economic and social development in Latin America and the Caribbean. Current lending priorities include poverty reduction; social equity; improving the efficiency, transparency, and accountability of the public sector; economic integration, including trade agreements; and the environment. IDB consists of the following entities as well as several funds in administration,[33] which provide financing and technical assistance, and the Intermediate Financing Facility Account:[34]

- The Inter-American Development Bank's Ordinary Capital (OC) provides market-based loans, guarantees, and technical assistance to the public and private sector.
- The Inter-American Development Bank's Fund for Special Operations is the concessional lending arm that provides technical assistance and key support for the bank's poorer members.
- The Inter-American Investment Corporation is the Inter-American Development Group's entity that provides loans and equity, and technical assistance to small and midsize private enterprises.

During 1999, IDB approved $9.5 billion in new loans and loan guarantees for the benefit of borrowing regional member countries primarily through the Ordinary Capital and the Fund for Special Operations. Approximately $4.3 billion of these new lending approvals were for the social sector and related to improving economic opportunities for the poor, strengthening the social infrastructure, such as education and health, and promoting equitable access to social services.

Inter-American Development Bank's Ordinary Capital

Most of the operations of IDB are conducted through OC. The operations and resources of OC are maintained separately from those of IDB's other entities and various funds. The members of the bank include 28 regional and 18 nonregional countries. Developing regional members had subscribed approximately 50 percent of OC's total subscribed capital at December 31, 1999. OC provides development assistance in the form of loans made to or guaranteed by members as well as loans and loan guarantees to private sector enterprises located within its regional borrowing member countries. Loans to the private sector without a

[33]In 1999, the bank had a total of 50 funds in administration, which are an important source of additional financing for special projects, particularly those benefiting the poor. These funds are generally financed through donations by nonborrowing member countries of the bank. The operations and resources of these funds are kept separate from the bank's Ordinary Capital.

[34]The Intermediate Financing Facility Account subsidizes part of the interest for which certain borrowers are liable on loans from the Ordinary Capital.

member's guarantee are limited to 5 percent of the bank's outstanding loans and guarantees.

Development Activities

The primary vehicle of OC's development assistance is direct lending. OC offers several different loan products that are disbursed in a variety of currencies. In general, interest rates charged on these loans are based on the bank's cost of borrowing or on LIBOR, plus an interest rate spread, which is currently 50 basis points. Repayment periods range from 15 to 30 years. As of December 31, 1999, OC's loans outstanding totaled approximately $38.6 billion and were all fully performing. IDB has never had a write-off of any of its OC loans.

During 1999, OC approved $9.1 billion in loans and loan guarantees for its borrowing regional member countries, of which approximately 97 percent were loans. Brazil received about $4.8 billion, or 53 percent of OC's approvals during 1999. Lending to Brazil included a $2.2 billion loan for social sector reform and a social protection program and a $1.2 billion loan to further develop small and medium-size productive sectors by making more market-rate financing available. Columbia and Mexico were the next largest borrowers in 1999 with about $1.0 billion and $919 million, respectively. As shown in table 25, nearly 69 percent of OC's total loans outstanding were due from its five largest borrowing countries.

Table 25: Concentration of Loans Outstanding to IDB's OC Five Largest Borrowers as of December 31, 1999

Five largest borrowers	Loans outstanding (in millions)	Percentage of total loans outstanding	Standard & Poor's credit rating[a]
Brazil	$8,464	21.96	B+
Argentina	6,714	17.42	BB-
Mexico	5,668	14.70	BB+
Colombia	3,224	8.36	BB
Peru	2,490	6.46	BB-
Total	**$26,560**	**68.90**	

[a]Credit rating is based on the most recent rating prior to January 1, 2001, for the borrowing country.

Source: IDB's 1999 audited financial statements and Standard & Poor's, *Sovereigns Ratings History Since 1975*.

Financing Activities

OC's operations are financed through retained earnings, paid-in capital, and borrowings obtained from world capital markets using callable capital as backing. As of December 31, 1999, AAA rated countries accounted for about 41 percent of OC's total callable capital. Based on membership support, preferred creditor status, and strong franchise value as a result of its lending expertise, OC received a AAA credit rating with a stable outlook for the future from Standard & Poor's during September 2000. The quality of OC's callable capital and its strong credit rating allow the bank to borrow funds from world capital markets at favorable loan terms. This allows the bank to pass on to borrowers more favorable lending terms than would normally be available based on their own credit standing. OC's most recent and eighth capital increase, approved by IDB's Board of Governors in 1995, increased the bank's resources by $40 billion, bringing total capital to about $101 billion.

Key Financial Data

OC financial statements are prepared in accordance with U.S. GAAP. OC received an unqualified audit opinion on its financial statements from Arthur Andersen, LLP for 1997 through 1999. Table 26 summarizes key financial data related to OC's results of operations over the past 3 years.

Table 26: Key Financial Data for IDB's OC for 1997 through 1999

Financial data	1999	1998	1997
(Dollars in millions)			
Total assets	$64,355	$54,574	$43,338
Loans outstanding	38,552	32,635	27,301
Undisbursed loans	23,931	23,309	20,684
Debt outstanding	39,553	32,516	27,331
Reserves	7,436	6,867	6,307
Paid-in capital	3,363	3,230	3,135
Total subscribed capital	100,881	94,219	87,557
Revenues	3,194	2,619	2,501
Expenses	2,626	2,226	2,086
Net operating income	568	393	415
Financial ratios	**1999**	**1998**	**1997**
(Percentages)			
Asset quality			
Nonaccrual loans / loans outstanding	Not applicable[a]	Not applicable[a]	Not applicable[a]
Loan loss allowance / loans outstanding	3.0	2.9	3.0
Capital quality			
Paid-in capital / total subscribed capital	3.3	3.4	3.6
AAA callable capital / total callable capital	40.9	40.7	40.5
Gearing			
Net disbursed loans / paid-in capital + reserves	346.2	313.8	280.4
Net disbursed loans / (AAA callable capital + paid-in capital + reserves)	74.3	67.7	61.1
Leverage			
Debt outstanding / (paid-in capital + reserves)	366.3	322.1	289.5
Debt outstanding / (AAA callable capital + paid-in capital + reserves)	78.6	69.5	63.1
Liquidity			
Liquid assets / (undisbursed loans + 1-year debt service)[b]	39.4	32.4	30.9
Administrative expenses and profitability			
Administrative expenses / total expenses	10.5	12.3	12.2
Net operating income / average assets	1.0	0.8	1.0

Note: Data are as of December 31 of the applicable year.

[a]This ratio is not applicable because IDB's OC did not have any loans in a nonaccrual status.

[b]Liquidity ratio was taken from Standard & Poor's, *Supranationals Special Edition 2000*, September 2000.

Source: Data used in calculating these ratios were taken from IDB's OC audited financial statements for 1997 through 1999, except where noted.

Inter-American Development Bank's Fund for Special Operations

The Fund for Special Operations (FSO) of IDB provides loans on concessional terms to the bank's borrowing regional member countries that are classified as economically less developed. FSO also provides technical assistance to borrowing countries. FSO makes low-interest and longer-maturity loans for countries in the region that require such financing.

Development Activities

Concessional loans of FSO are made to or guaranteed by borrowing regional member countries. The rate of interest and other loan terms of FSO loans depend on the type of currency that is lent to the borrower, the stage of the country's development, and the nature of the project. Generally, these loans charge interest rates from 1 to 4 percent, offer grace periods of 5 to 10 years, and have maturities of 25 to 40 years. As of December 31, 1999, FSO's loans outstanding totaled approximately $7.0 billion and were all fully performing. FSO has never had a write-off except for debt relief resulting from the implementation of the HIPC Initiative. As shown in table 27, nearly 51 percent of FSO's total loans outstanding was due from its five largest borrowing countries. During 1999, FSO approved about $417 million in loans to Bolivia, Guyana, Honduras, and Nicaragua.

Table 27: Concentration of Loans Outstanding to IDB's FSO Five Largest Borrowers as of December 31, 1999

Five largest borrowers	Loans outstanding (in millions)	Percentage of total loans outstanding	Standard & Poor's credit rating[a]
Honduras	$822	11.82	Not rated[b]
Bolivia	803	11.55	B+
Nicaragua	720	10.35	Not rated[b]
Ecuador	620	8.91	B-
El Salvador	571	8.22	BB+
Total	**$3,536**	**50.85**	

[a]Credit rating is based on the most recent rating prior to January 1, 2001, for the borrowing country.

[b]Standard & Poor's has not issued a credit rating for this country.

Source: FSO's 1999 audited financial statements and Standard & Poor's, *Sovereign Ratings History Since 1975*.

Financing

FSO operations are financed primarily through borrower repayments, investment income, and contributions from 46 member countries. FSO does not borrow from the world market to obtain additional funding for its operations. The most recent and eighth increase in contributions was effective in 1995. This increase in contributions increased the authorized resources of FSO by approximately $1.0 billion, bringing total contributions to $9.6 billion.

Key Financial Data

Because of the special nature and organization of the FSO, its financial statements are prepared on a special accounting basis that comply with procedures set forth in IDB's Articles of Agreement and agreed upon by members. This special accounting basis is not meant to be consistent with U.S. GAAP. Under FSO's special accounting basis, management has elected to present loans at the full face value and does not estimate a loan loss allowance related to its loan portfolio. FSO received unqualified audit opinions on its financial statements from Arthur Andersen, LLP, for 1997 through 1999. Table 28 summarizes key financial data related to FSO's financial position over the past 3 years.

Table 28: Key Financial Data for IDB's FSO for 1997 through 1999 (Dollars in millions)

Financial data	1999	1998	1997
Total assets	$10,275	$10,296	$10,429
Undisbursed loans	1,931	1,952	1,805
Loans outstanding	6,955	6,827	6,734
Nonaccrual loans	0.0	0.0	0.0
Cumulative member contributions	9,646	9,643	9,572

Note: Data are as of December 31 of the applicable year.

Source: FSO's audited financial statements for 1997 through 1999.

Inter-American Investment Corporation

The Inter-American Investment Corporation (IIC), a multilateral organization, was established in 1986. Although a member of the IDB Group, IIC is autonomous, and its resources and management are separate from those of the IDB. IIC's mission is to promote the economic development of its Latin American and Caribbean member countries by financing small and medium-size enterprises. IIC has 37 member countries that include 26 Latin American and Caribbean countries, 8 European countries, and Israel, Japan, and the United States. Its development investment activities are limited to its 26 regional developing member countries.

Development Activities

IIC provides project financing in the form of loans and equity investments, lines of credit to local intermediaries, and investments in local and regional investment funds. IIC seeks to make loan and equity investments where sufficient private capital is difficult to obtain or otherwise not available on reasonable terms. Project funding is supplemented by other investors and lenders through cofinancing or loan syndication. IIC provides loan amounts up to 33 percent of the cost of a new project and up to 50 percent of the cost of an expansion project. IIC makes equity investments of up to 33 percent of a company's capital. In addition, the IIC provides financial and technical advisory services as part of its evaluation of the project's soundness and probability of success.

During 1999, IIC approved $192 million in loans and equity investments. Loans accounted for 89 percent of IIC approvals during the year. Projects supporting the financial services sector received approximately 51 percent of these new approvals. Regional projects and projects in Bolivia received the largest portions of IIC approvals with approximately 22 percent and 10 percent, respectively. As of December 31, 1999, IIC had approximately $353 million in loans and equity investments outstanding. As shown in table 29, nearly 61 percent of IIC's total outstanding loans and equity investments related to four of its largest countries of operations, as well as projects covering the entire region.

Table 29: Concentration of Loans Outstanding to IIC's Largest Five Areas of Operations as of December 31,1999

Areas of operation	Loans and equity investments outstanding (in thousands)	Percentage of total loans and equity investments outstanding
Argentina	$80,465	22.8
Regional	42,910	12.2
Brazil	33,443	9.5
Bolivia	31,752	9.0
Peru	25,611	7.3
Total	**$214,181**	**60.8**

Note: Since IIC's loan and equity investments are made to the private sector, the credit rating of the member country is not as applicable as the risk associated with each individual project.

Source: IIC's audited financial statements for 1999.

Financing

IIC receives its financing primarily from capital subscriptions from its member countries. IIC does not have callable capital to finance its development activities. On December 14, 1999, the Board of Governors approved a resolution increasing the authorized capital of IIC from $203.7 million to $703.7 million. The resolution called for $500 million for subscriptions by member countries as of February 28, 2000. Member country subscriptions are based on their voting shares and are paid in several installments, the last being payable on or before October 31, 2007.

Key Financial Data

IIC's financial statements are prepared in accordance with U.S. GAAP. IIC has received unqualified audit opinions on its financial statements from

PricewaterhouseCoopers LLP for 1997 through 1999. Table 30 summarizes key financial data related to IIC's results of operations over the past 3 years.

Table 30: Key Financial Data for IIC for 1997 through 1999

Financial data	1999	1998	1997
(Dollars in millions)			
Total assets	$361	$315	$311
Loans outstanding	268	221	208
Loan loss allowance	25	28	26
Equity investments	85	79	59
Allowance for losses on equity investments	10	10	5
Debt outstanding	1,150	90	85
Reserves	5	18	22
Total subscribed capital	203	203	202
Revenues	28	28	34
Expenses	41	32	31
Net operating income	(13)	(4)	2
Financial ratios	**1999**	**1998**	**1997**
(Percentages)			
Asset quality			
Loan loss allowance / loans outstanding	9.3	12.7	12.5
Gearing			
Net disbursed loans / (paid-in capital + reserves)	116.8	87.3	81.3
Leverage			
Debt outstanding / (paid-in capital + reserves)	552.9	40.7	37.9
Administrative expenses and profitability			
Administrative expenses / total expenses	31.7	40.6	38.7
Net operating income / average assets	(3.8)	(1.3)	0.6

Note: Data are as of December 31 of the applicable year.

Source: Data used in calculating these ratios were taken from IIC's audited financial statements for 1997 through 1999.

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) is a regional bank established in 1990. As of December 31, 1999, EBRD's 60 members consisted of 58 sovereign countries, including 26 countries of operation that have contributed about 12 percent of EBRD's total subscribed capital, the European Community, and the European Investment Bank. EBRD's principal stated purpose is to foster the transition toward open market-oriented economies and to promote private and entrepreneurial initiatives in the countries of central and eastern Europe and the Commonwealth of Independent States that are committed to applying principles of multiparty democracy, pluralism, and market economies.

Development Activities

EBRD provides development assistance through public and private loans, cofinancing, loan guarantees, share investments,[35] and technical assistance. Through its operations, it promotes private sector activity, the strengthening of financial institutions and legal systems, and the development of infrastructure needed to support the private sector. The majority of the bank's private sector lending and investments do not include a sovereign guarantee by a member. As of December 31, 1999, EBRD had $7.0 billion in loans outstanding, including $455 million in a nonaccrual status. As shown in table 31, approximately 57 percent of total loans outstanding related to EBRD's five largest countries of operations.

Table 31: EBRD's Five Largest Countries of Operations Based on Loans Outstanding as of December 31, 1999

Five largest countries of operations	Loans outstanding (in millions)	Percentage of total loans outstanding
Russian Federation	$1,627	23.17
Romania	798	11.37
Poland	745	10.62
Hungary	489	6.97
Ukraine	312	4.44
Total	**$3,971**	**56.57**

Note: Since the majority of EBRD's loans are to the private sector and do not require a member guarantee, the credit rating of the developing member is not as applicable as the risk associated with each individual project.

Source: EBRD's 1999 audited financial statements.

During 1999, EBRD approved about $2.2 billion for its financing operations. Approximately 71 percent of these approvals related to private sector loans or equity investments. The majority of these approvals related to financial institutions, industry and commerce, and the infrastructure sectors. EBRD has always placed emphasis on the financial institution sector, recognizing that a well-functioning market economy requires a sound and effective financial sector capable of commanding the confidence of a country's population. The industry and commerce sector includes projects related to agriculture, natural resources, tourism, and

[35] Share investments are equity investments with creditworthy counterparties that have risk characteristics similar to loans and, accordingly, are classified and accounted for as loans.

telecommunications. The infrastructure sector relates to power and energy utilities, transportation, and municipal and environmental infrastructure. During 1999, regional development projects and projects within the Ukraine and Czech Republic received the most of the bank's new approvals.

Financing Activities

EBRD's operations are financed through retained earnings, paid-in capital from members, and funds borrowed from world capital markets using callable capital as backing. As of December 31, 1999, members with a AAA credit rating accounted for about 60 percent of EBRD's total callable capital. EBRD's most recent capital increase to EBRD was approved in 1996. As of December 31, 1999, 56 out of 60 members had participated in the increase and brought the total amount subscribed to about 97 percent of the approved total capital increase. Based on EBRD's strong membership support; prudent policy limits on the bank's operations, gearing, and liquidity; and strengthening of the organization, EBRD received a AAA credit rating with a stable outlook for the future from Standard & Poor's in September 2000.

Key Financial Data

EBRD's financial statements are prepared to comply with International Accounting Standards, and EBRD received an unqualified audit opinion on its financial statements from Arthur Andersen for 1997 through 1999. Table 32 summarizes key financial data related to EBRD's results of operations over the past 3 years.

Table 32: Key Financial Data for EBRD for 1997 through 1999

Financial data	1999	1998	1997
(Dollars in millions)			
Total assets	$19,685	$18,723	$14,901
Loans outstanding	6,976	6,735	5,038
Undisbursed loans	3,899	5,158	4,798
Debt outstanding	12,619	11,348	8,155
Reserves	(92)	(185)	109
Paid-in capital	4,945	5,779	5,372
Total subscribed capital	19,731	22,508	20,283
Revenues	859	955	789
Expenses	816	1,260	772
Net operating income	43	(305)	18
Financial ratios	**1999**	**1998**	**1997**
(Percentages)			
Asset quality			
Nonaccrual loans / loans outstanding	6.5	5.0	2.6
Loan loss allowance / loans outstanding	13.7	12.6	5.6
Loan loss allowance / nonaccrual loans	209.7	251.7	219.1
Capital quality			
Paid-in capital / total subscribed capital	25.1	25.7	26.5
AAA callable capital / total callable capital	59.7	60.8	64.0
Gearing			
Net disbursed loans / (paid-in capital + reserves)	124.1	105.2	86.7
Net disbursed loans / (AAA callable capital + paid-in capital + reserves)	44.5	37.5	31.6
Leverage			
Debt outstanding / (paid-in capital + reserves)	260.0	202.8	148.8
Debt outstanding / (AAA callable capital + paid-in capital + reserves)	93.2	72.4	54.3
Liquidity			
Liquid assets / (undisbursed loans + 1-year debt service)[a]	160.6	143.7	117.1
Administrative expenses and profitability			
Administrative expenses / total expenses	19.7	13.3	19.6
Net operating income / average assets	0.2	(1.8)	0.1

Note: Data are as of December 31 of the applicable year.

[a]Liquidity ratio was taken from Standard & Poor's, *Supranationals Special Edition 2000*, September 2000.

Source: Data used in calculating these ratios were taken from EBRD's audited financial statements for 1997 through 1999, except where noted.

Agency Comments

On May 11, 2001, we received comments of a technical nature from cognizant Treasury officials. We have incorporated these technical comments as appropriate.

We are sending copies of this report to the Honorable Paul H. O'Neill, Secretary of the Treasury, and other interested parties. Copies will be made available to others upon request.

Please contact Jeanette Franzel, Acting Director, at (202) 512-9471 or by email at franzelj@gao.gov if you or your staffs have any questions concerning this report. Key contributors to this report were Darryl Chang, Marcia Carlsen, Julia Ziegler, and Meg Mills.

Jeffrey C. Steinhoff
Managing Director, Financial Management and
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Chairman
The Honorable Joseph Biden
Ranking Member
Committee on Foreign Relations
United States Senate

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