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How Regional and Global Development Banks responded to the Financial Crisis?

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Abstract

The G20 resolved in one of its Working Groups in 2008 to address the issues of reform in regional and multilateral development banks. This was partly in recognition of the fact that that some of the rules pertaining to the structure and financing of these institutions needed reform to appositely reflect and deal with the current global economic challenges. This paper presents some of the responses that were used by 14 global, regional and sub regional development banks to address problems of re-capitalization in client states. The approaches of the regional banks are juxtaposed with those of the World Bank. It is argued that greater coordination between the regional banks and the World Bank, of which seminal indications have been observed of late, should be fostered. The rules that govern these banks are ripe for reform that better reflects the importance of keener coordination. The regional and sub-regional development banks treated include: the African Development Bank; the Asian Development Bank; the Inter American Development Bank; the European Bank for Reconstruction and Development; the European Investment Bank; the Islamic Development Bank; the Eurasian Development Bank; the Development Bank of Southern Africa; the East African Development Bank; the Caribbean Development Bank; the West African Development Bank, the Central African Development Bank and the Bank of the South. This paper is relevant because it considers how the actions of development banks impact on poverty in client countries. Problems of re-capitalization surfaced in many client countries. Such problems impacted investments in trade, tourism, infrastructure and agriculture. It is argued that greater mutual interaction between the banks is vital. The founding rules can be adapted to reflect the need for such exchange and coordination, the latter being a task which the World Bank could undertake.

Introduction

The financial crisis that hit the world in 2008 left in its wake what has been termed the Great Recession. The impact of the crisis has been devastating for many economies, from countries in the North and South alike. In many countries, no other sector has been more affected than the financial sector. The direct and immediate effect has been the drying up of capital and the dampening of liquidity flows to finance vital commercial and social activities. But the liquidity travails of banks are mainly distant and balance sheet problems that do not initially seem to have real life or concrete effects on the real economy.[2] However, the lack of liquidity and dilution of bank capitalization has had important effects on four vital sectors in many countries, especially the countries of the South. The four main sectors that have been adversely affected by the crisis include trade, tourism, infrastructure and agriculture. Take tourism for instance; the crisis simply drove tourists away from key destinations that rely primarily on tourism proceeds to power their economies. The impact on economies such as Kenya, South Africa, Egypt and the Caribbean has been dire. In terms of infrastructure, some projects in many parts of the world were brought to halt because of the drying up of financing. The impact of this has been a dent in efforts to provide essential public goods and services including roads, schools, hospitals and publicly funded research. The perpetuation of bad roads and poor transport infrastructure has the perverse effect of engendering an increase in transportation costs that is eventually borne by the end consumer. Another aspect that has been severely impacted by the crisis has been the provision of food. The reduction of funding options for banks entails that industrial farmers cannot scale production in developing countries and this, in turn, reduces the quantity of goods that can be provided to those in need.

The downside of the current economic sclerosis is that it is not only affecting poor countries; those in traditionally richer nations are also feeling the pinch. Growth levels in the West have stagnated and unemployment has risen to levels not seen since the Great Depression. At the moment of writing there are serious concerns in the euro zone as to the viability of the euro project following the Greek crisis. As the financial credibility of some of the countries of the West plummet (evidenced by downgrades from credit rating agencies) it has become more difficult for these richer countries to extend a helping hand to those in the South. It is politically inconceivable for Western politicians to justify aid for poor countries and still maintain a strong stance in the light of their domestic economic realities.

In the face of such challenges poor countries, and even some middle income nations, have turned their attention to the multilateral development banks (MDBs), including the World Bank (WB), and 13 other

[2] One of the positive effects of the crisis has been a hike in the crackdown on tax havens and a clamp down on countries that encourage transactions undergirded by capital flight.

regional development banks (RDBs) and sub regional development banks (SRDBs). The efforts of these banks have not received ample attention in the past. It is vital to review the actions that some of the banks have taken in dealing with the crisis in some of their client states. It is useful to look at what they do and if it can be improved in a context of multiple actors and challenges.

The development banks are better placed to provide funds for development to countries that lack the credit rating to access capital from the financial markets. These banks are also more tuned in to the needs of their client countries as they have often funded infrastructure related projects; a necessity in the current time of crisis. What is more, they also tend to be geographically close to the realities on the ground. This is especially so for the regional and the sub-regional development banks. Even in the case of the WB, it has developed a strong army of field officers that are technically versed at identifying the needs of client nations.

The goal of this paper is to identify what specific and innovative approaches were used by the development banks in responding to the needs of their client states following the crisis that started in 2008. The practical interest pursued is to identify the ways in which such innovative approaches could be embraced in other regional constellations, as the case may be. Beyond this goal is a more structural interest that consists of identifying the possibilities or options for cooperation between development banks in the specific thematic areas covered in this paper. It is vital that cooperation or collaboration between the banks is enhanced so that needless duplication is prevented. The practical goal here is to identify how experiences can be shared and how futile duplication can be avoided.

Having collapsed some of the preliminary considerations, part two of this paper will address the crisis that hit the global markets in 2008. It discusses the ways in which Africa, Asia, Europe and Latin America were affected by the crisis, looking at some of the specific challenges that some of these countries and regions faced in line with the four focal sectors outlined in this paper. This is followed by a third part which elaborates on the various banks. The institutions examined include the World Bank (WB), the African Development Bank (AFDB), the Asian Development Bank (ADB), the Inter American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Islamic Development Bank (IsDB), the Eurasian Development Bank (EDB), the Development Bank of Southern Africa (DBSA), the East African Development Bank (EADB), the Caribbean Development Bank (CDB), the West African Development Bank (WADB), the Central African Development Bank (CADB) and the Bank of the South (BOS). The aim has been to cover all the known regional and sub-regional development banks. As will be revealed in this paper, the sub-regional and regional banks often do not have similar mandates. Some banks like the WB, AFDB, ADB, IDB and the EBRD have broader mandates to provide public goods as well as to serve as knowledge banks. On the other hand, sub-regional banks and some of the more specialized banks like the IsDB are more focused in their mandates in terms of the thematic areas they cover. Part four then looks at the manner in which the 14 banks responded to the financial crisis in each of the four areas studied. This is followed in part five by a detailed analysis of the ways in which the banks can share experiences on those approaches and strategies that worked in delivering desired outcomes for client countries. The main goal will be to look at some of the legal mandates of the banks and to establish that it is both possible and essential to have a situation of coordination between them. Most of the banks make clear that they will coordinate their actions with other international institutions working in similar areas. It is argued therefore that leaning on the mandates of their constitutions or articles of agreement, informal and formal coordination can be enhanced by making the World Bank act more as a coordinator for the actions of these banks. Some of these points are also taken up in the last part of the paper by way of conclusion.

Global Financial Crisis 2008 and Impact on the Economies of the South

What has been aptly described by Nouriel Roubini as 'the Great Recession' has wrought great economic havoc in all the regions of the world (United Nations, 2010). As the economies of the world are becoming increasingly interdependent through the increased speed in the movement of production factors, globalization has proved to be a dazzlingly dynamic. The interconnected nature of world markets now entails that one action leads to a reaction either within or outside the same market. It is true that some of the bigger markets, such as those of the US and the EU, have greater leverage and influence; that is why the collapse of Lehman Brothers in 2008 was such a devastating moment for the global economy. Lehman Brothers embodied the woes that had come to characterize the modern globalization process (in the financial sector), undercut by an aggressive variant of capitalism built on excessive leveraging and the preponderance of speculation (Naude, 2009: 3). Linked to the issues of speculation and mammoth leveraging of debts by the major banks of the West was the issue of subprime mortgages which further undermined the credibility in the US housing market; thereby placing a negative premium on its viability. So it is fair to assert that the crisis really started in the US, when the real estate market was overwhelmed with 'supply' that could not be matched with adequate 'demand.' The previously secure mortgage loans brought tremendous returns for both bankers and investors. The desire to make more money pushed the banks to buy more mortgages, and as they could not find more 'secure' borrowers they were forced to offer bad and risky subprime loans. This could be considered the starting point of the mortgage crisis. As a result of the housing boom the economy of the US was almost brought to its knees. The impact of the US subprime mortgage debacle, alongside the reversal of the housing boom in other industrialized economies, quickly spread globally to institutions and banks that held financial instruments and products related to these mortgages. As a result these foreign financial houses also realized a sudden but inevitable evaporation of capital (Zhu, 2011). These developments engendered the persistent tailspin experienced by world stock markets and financial institutions for long bouts of periods.

Many sectors and countries have been hit hard by the tough economic realities generated by the financial crisis. The events which ensued following the implosion of Lehman Brothers led to repercussions across borders, with no region going unscathed. For example, in regions such as the Caribbean the tourism sector has been adversely affected (CDB, 2010: 27; ECLAC, April 2010: 19; Sanders, 2009).

The regions have also been seriously impacted by the stringent measures put in place by the Organization for Economic Cooperation and Development (OECD) in recent years to combat the proliferation of tax havens. In regions like Central Asia the effects of the crisis have been a major capital outflow from countries like Kazakhstan, Russia and Ukraine (Golovnin et al., 2010: 155). The serious fluctuations in the financial markets have provoked difficulties in other sectors such as energy and agriculture, especially in developing countries (ECLAC, 2008: 1). Although there were initial signs of a recovery in 2010, the grounds on which these claims were founded have been tenuous (Stiglitz, 2010: 340) considering the current financial problems being faced by Greece and the persistent demand related challenges (Krugman, 2008: 182).

Groups of countries within the various regions have adopted different approaches to address the crisis at the regional level. In Asia, China; South Korea and Japan joined hands with members of the Association of Southeast Asian Nations (ASEAN) to fortify the extant Chiang Mai Scheme of currency swaps. In the Caribbean, members of the Caribbean Community that also belong to the Organization of Eastern Caribbean States,[3] sharing the East Caribbean dollar, reacted as a group by adopting a mid-to-long-term combined economic stabilization program (ECLAC, April 2010) the elements of which include fiscal reform, debt management and public investment. In Central Africa, leaders of CEMAC endorsed decisions to augment funds to deal with problems caused by the crisis, and also issued a mid-term program on economic integration (CEMAC, January 2009: 5; CEMAC, February 2009). In Central Asia and within the Commonwealth of Independent States (CIS), leaders of the Eurasian Economic

[3] Members include Antigua and Barbuda, Dominica, Granada, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines.

Community (EURASEC) Group reacted to the economic conundrums with the creation of a Crisis Fund (Mishina, 2010: 243). They also announced the objective of speeding up the move towards the creation of a single economic area by 2012 (Vinokurov, 2010: 20). Southern African states also joined in the regional efforts to respond to the crisis. The Southern African Development Community (SADC) commissioned a study into the regional effects of the economic difficulties engendered by the recession. In addition, other approaches have been identified and options for the region as a whole are being considered. States have been encouraged to engage in country diagnostic assessments for more detailed sectoral impact analyses. That being said, recent studies into the impact of the crisis indicate that Southern Africa will be seriously affected in terms of reduced exports of base metals, the tightening of the credit market; slower Gross Domestic Product (GDP) growth and increased current account deficits (Jefferis, 2009).

But what have been the concrete effects of the crisis on the various countries across the regions of the world, particularly those of the South? Most of the countries of the South, especially those in Africa, were not directly impacted by the financial crisis as such because of the peripheral nature of their financial sectors when compared to the global financial system. In Africa for instance, few countries (such as South Africa, Egypt and Nigeria) had exposure, albeit limited, through the relatively developed nature of their financial sectors. Such has also been the case in Latin America and Central Asia. On the other hand, most parts of Southeast Asia experienced limited effects despite their links with the global financial markets and transfers.

While it is true that the impact on poor and peripheral countries has been weak, there has been a clear effect of the crisis on many aspects of these countries' economies independently of their region. Such aspects include trade, remittances, infrastructure spending, unemployment, social spending and liquidity. Allusion will be made in this paper to the sectors that have been affected in all the regions, including trade, tourism, infrastructure spending and agriculture.

Africa

The financial crisis of 2008 hampered the economic and social development of the African continent. According to the AfDB, "Africa has been hit severely by the crisis … The slowdown in growth is primarily due to declining trade flows" (ADB, 2009: 1). The rapid decline in export prices had a disastrous effect, primarily on commodity exports as well as on oil exporting countries, which experienced substantial losses (Ali, 2009). Due to its limited exposure to international financial flows and markets, the greater part of Africa's financial sector has been hit relatively mildly by the global crisis. But the main effect for the financial sector was the urgent need felt by some central banks to recapitalize certain commercial banks in poor countries, as in Central Africa.

Tourism is also another sector which was hit hard as a result of the crisis. Key tourism destinations including Kenya, Egypt and Tunisia experienced dips in tourist visits (Ali, 2009). This, of course, has been largely due to the reactive tendencies towards cautious spending by some in the West as a reaction to the hard economic times.

Public spending was reduced as a result of the crisis. Spending in public infrastructure projects and also in areas of public services has experienced major setbacks. As asserted by the AfDB, countries like Angola were forced to severely curtail their public expenditure plans, including public infrastructure investment, due to lower fiscal revenues. In Mozambique, for example, foreign direct investment (FDI) related to expansions of hydroelectric and mining projects has been delayed or suspended, with many of the region's other sectors facing severe consequences of the crisis.

The financial crisis also had an impact on the rising cost of food imports. Aligned to the liquidity shortfall of many poor countries, the restrained grain supplies from Russia and the Ukraine as well the pursuit of bio fuel exploitation have all adversely affected the access to food supplies and engendered scarcities in poor countries, including those in Africa.

Asia

Asian economies were left relatively unscathed thanks to the lessons learnt from the 1997 Asian financial crisis and the resulting prudential standards which were put in place. The banking sector in Asia was therefore particularly resistant to the financial turmoil of 2008. The banks of the region registered limited exposure to the toxic subprime mortgages and deviant financial instruments that contributed to the disgrace of the financial power houses of the West, including Lehman Brothers and Citi.

Countries such as China and Japan have stood out in terms of their huge reserves, but the crisis also adversely affected other Asian countries and led to a reduction in the high growth rates that had been recorded in previous years. Asian trade levels were severely hit by the crisis; the most vulnerable and obvious areas of impact in the Asian region was the export and equity markets, which declined rapidly. The Monetary Authority of Singapore noted three traits of the impact of the crisis on Asian economies; the first was a fall in exports across Asia, from Japan to Indonesia from July 2008 reaching a slump around February 2009. Intra-Asian exports contracted by even more than exports to more advanced economies, falling by 48 per cent peak to trough, compared with a 29 per cent decline in exports to the US and EU-15 over the same period (Keat, 2009: 1-2).

Countries which rely heavily on the tourism sector, such as Thailand were hit hard (Llanto and Badiola, 2009: 16-17). Just as in Africa, the crisis meant fewer tourists heading to key destinations within the region, including Cambodia, Sri Lanka and Thailand.

The contraction of external demand seriously affected the exports of South Korea and Thailand. The Asian Development Bank reported that in 2009 export growth dropped by 13.9 per cent in Thailand, 13.7 per cent in the Republic of Korea, 21.1 per cent in Malaysia, and 22.3 per cent in the Philippines. As the world's manufacturing hub, China was initially affected as its export growth for 2009 dropped. The most afflicted of the region's countries were in Central Asia, which had to succumb to the lull in global demand for commodities that in turn led to a drop in prices. Compared to most East Asian economies, that are more linked up to the global supply chain and which also have higher export to GDP ratios, the economies of South Asia (including India and Pakistan) were less affected (Brunschwig et al., 2011: 2). That being said, major export based Indian sectors like agriculture and jewelry chronicled massive job losses by the end of the first quarter of 2009 ((Llanto and Badiola, 2009: 61-62).

In summary, the crisis negatively affected the development efforts in the region. But as Llanto and Badiola note, the emerging countries of the region have been able to ensure that their economies came out of the crisis in much better shape than most of the economies of the advanced world. Despite the dips registered in growth rates, admirable fiscal and monetary policies placed most of the economies in the region in a prime position for an economic rebound (Llanto and Badiola, 2009: 17).

Europe

Europe suffered major effects following the crisis. The De Larossiere report revealed the continent was exposed to problems as a result of the economic recession. In recent months this has come into sharper relief especially as the financial crisis of 2008 has unveiled major faults in the fiscal prudence of some European countries. Initially, when the crisis hit countries like Bulgaria and Latvia, they rushed to the IMF for assistance. The problem became more stark as many Western and advanced economies such as Ireland, Portugal and now Greece and Italy became reliant on the IMF, the European Central Bank (ECB) and the European Commission in their search for a bailout.

Many banks in European countries such as Belgium, Germany and Switzerland were exposed to the toxic assets that contributed to fuel the slump in the first place. The bubbles that impacted the housing market affected Iceland, Spain, and the United Kingdom (United Nations, 2009: 30). The IMF's Global Financial Stability Report of April 2009 indicated that loan and securities losses that were suffered by Europe stood at a tune of 1193 billion (European Commission, 2009: 11). The financial crisis strongly affected the EU economy through three essential transmission channels: a write-down on European banks; a dilution or reduction of consumer spending, accompanied by dampening of asset prices; and a massive reduction in trade (European Commission, 2009: 24).

For specific Western European countries, the effects have also been clear. Spain, for instance, registered high levels of deficit and unemployment between 2008 and 2009. In 2009 it recorded a deficit of 11.2 per cent; far above the Maastricht criteria recommendation of a 3 per cent deficit for Member States. The difficulties in Spain compounded the unemployment situation which was already dire even before the crisis hit. By the time of the crisis the figure for unemployment stood at around 18 per cent. Even the most vibrant European economy (Germany) suffered a very cardinal diminution of exports, and it also chronicled a negative income growth of 6.9 per cent between the third quarter of 2008 and the second quarter of 2009 (Orendt, 2010).

The crisis equally had major implications for the agricultural sector in Europe. The prices for cereals reached record high levels in Spring 2008, followed by a rapid decline. As stated by the European Commission, in 2008 total meat consumption fell considerably, likely as a consequence of high prices and low availabilities (European Commission, 2009a: 8-9).

Central and Eastern European countries generally enjoyed rapid growth prior to the crisis. This growth was fueled by high foreign investment and strong commodity prices. For instance, in Eastern Europe, real GDP growth was expected to slump from 5.7 per cent in 2007 to 4.2 per cent in 2008 and then 2.5 per cent in 2009, according to IMF's estimates in November 2008. New EU member states, including Bulgaria and Romania, were also at risk from large current account deficits (Eghbal, 2009). The slowdown of global demand and fall in the commodity prices had a negative effect on states such as Ukraine that are highly dependent on steel.

Latin America and Caribbean (LAC)

The effects of the global financial crisis on Latin America began to intensify after the collapse of Lehman Brothers. There are a number of transmission channels that can be underscored, including the plummeting of external financing, a reduced demand for exports and a reduction in commodity prices (Giugale, 2009: 1). Countries in the Caribbean saw a marked hit to their tourism sectors.

Up to the period of the crisis Latin American states experienced an unusually benign external environment. As underscored by Jara and colleagues, a combination of net capital inflows and current account surpluses had contributed to significant foreign reserve accumulation. In addition to that, gross inflows and outflows were at record highs, with foreign direct investment (FDI) being the main source of external financing (Jara et al., 2009: 54). However, after mid-September 2008 the situation changed dramatically. International banks were unable to accord new credits, which impeded the economic development of the region. Sharp currency depreciation was triggered by the reversal in capital flows and a collapse in commodity prices. Export levels slumped, and according to Standard Chartered international prices for copper, wheat and soybeans – key exports from South America – were slated to fall by 45.5 percent, 21.1 percent and 16.9 percent, respectively (Chronicle Staff, 2009). For example, Grenada was hit hard by the global slowdown, with a GDP rate that was estimated to decline by 7.7 per cent in 2009. In addition, the number of active banana growers in the smaller Windward Islands of St Lucia, St Vincent, Dominica and Grenada fell in 12 years from 11,664 to 3,100 (Mathiason et al., 2010).

According to the information provided by the Institute of International Finance, net private flows to Latin America fell from 180 billion dollars in 2007 to less than 90 billion dollars in 2008. Their projection for 2009 was 40 billion dollars. This dramatic reduction reflects a reversal in net portfolio equity investment from 15 billion dollars in 2007 to -10 billion dollars in 2008 (Cardenas, 2009).

The crisis had a major impact on the development of infrastructure in the region. Investments in this sector shifted from ports and roads to job-creating projects ranging from urban transportation to water. However, some actors in industry acknowledge that there are efforts in the region to boost development, pointing to Brazil's plans to increase infrastructure spending by around 34 percent, to counter the effects of the global economic meltdown. They also point to Mexico's plan to spend 3.4 billion dollars on infrastructure spending to spur growth and employment (Chronicle Staff, 2009).

The overall deterioration of economic conditions that was registered in the fourth quarter of 2008 was unprecedented. During that quarter, on average for the LAC, the cost of international borrowing for firms doubled; corporate issues of debt and equity securities came to a virtual halt; the flow of credit by private banks stagnated; exports and imports shrunk by between 30 and 25 percent, respectively, as trade surpluses vanished; and industrial production fell by about 12 per cent (De la Torre, 2009: 16).

In summary, the global financial crisis can be traced back to the US subprime mortgage crisis and the resulting deleveraging process by global financial institutions involved in highly complex financial transactions, marks, as some have stated, the first global financial crisis of the 21st century" (Brunschwig et al., 2011: 1). But the corporate laissez faire culture that engendered the mortgage cataclysm in the first place can be traced back to the deregulation tendencies that started in the early 1980s and continued in the 1990s. The crisis had drastic implications for various sectors and affected countries all around the world. It became a multi-faceted crisis that has now morphed into a crisis of unemployment and a food crisis, among others. In all the regions, effects have been felt in the areas of trade, infrastructure, tourism and agriculture. Other effects emanating from the slump have been a reduction in the levels of remittances which was in itself sparked by the high unemployment levels brought on by the crisis.

The Banks

This section presents a synopsis of the banks that are treated in the study. They include the global development bank (the World Bank) on the one hand and the various sub-regional and regional development banks on the other. The section is important in helping one to understand the nature and operations of the institutions. This is because to understand what they are doing and what they could do in the future it is useful to know where they are coming from.

World Bank

The World Bank is a huge entity. It is an organization whose activities cut across almost any kind of challenging theme imaginable, and it is constantly updating the themes and areas in which it works. The World Bank Group (WBG) is made of five entities, to wit, the International Bank for Reconstruction and Development (IBRD, commonly referred to as 'the Bank'), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID). All the other entities are supplementary to the IBRD (Art. 1, IDA Articles of Agreement).

The main architects behind the creation of the Bank and the International Monetary Fund (IMF or the Fund) were United Kingdom (UK) economist John Maynard Keynes and United States (US) economist Harry Dexter White, along with 42 other colleagues during the Bretton Woods Conference of 1944 (Birdsall, 2006: 70). The Bank was initially conceived of in the form of a club (cooperative) rather than a development agency. As a cooperative it provided loans to its members at little or no cost. The ability to make low-cost loans "arises because the sum of the membership's credibility reduces borrowing cost for all members…" (Birdsall, 2006: 71). While the Fund's main tasks were to adjust current account imbalances and manage the exchange rate system, the Bank's focal tasks were the reconstruction of Europe and Japan as well as the elimination of the bias against lending to developing countries (Meltzer, 1999).

During the initial years of its history loans were scrutinized diligently, and the first loan (accorded to France) was approved after a protracted process. From its creation in 1944 until about 1968 it directed its attention more towards reconstruction in Europe and Japan. It did however have to compete with the Marshall Fund in later years, making it shift its attention to other countries outside Europe that needed its loans.

The year 1968 marked a turning point for the Bank as President Lyndon Johnson appointed Robert McNamara as president of the World Bank. Fresh from his role as Defence Secretary and President of Ford Motor Company, he introduced a technocratic management style; widening the Bank's sourcing of funds from just global bond markets and above all emphasizing the focus on social projects (the building of schools, hospital and roads) in poor countries. The downside of this latter approach was that many poor countries accumulated huge debts in loans to fund the infrastructure schemes that proved, in some cases, to be white elephants.

In 1980 McNamara was replaced by AW Clausen, appointed by Jimmy Carter. Clausen in turn appointed Anne Krueger as Chief Economist. In her capacity as Chief Economist, Krueger directed her criticisms against the governments in developing countries for rent-seeking, and she also distanced herself from the development finance that had marked the McNamara and Hollis Chenery epoch. The Clausen/Krueger years that ended in 1989 were characterized by infamous Structural Adjustment Programs (SAPs) that led to cuts in social spending and a hike in lending for debt servicing.

With the fall of the Berlin Wall in 1989, liberalization and increased deregulation associated with privatization demands (supported by the Bank) increased. At the time the buzzwords in the circles of Bretton Woods Institutions (BWIs) were the Washington Consensus championed by the Bank, the Fund and the US Treasury Department. These developments were however also accompanied by the birth of an army of social movements in the form of social and environmental Non-Governmental Organizations (NGOs) and Civil Society Organizations (CSOs) poised to challenge some of the neo-liberal leaning practices of the Bank.

Today it focuses on providing loans to middle income countries, as well as low interest rate loans and grants to low income countries through the IDA that was created on 24 September 1960. The IBRD gains its funding through the relatively low interest rates on its loans and also from capital markets. It issues yearly bonds to the tune of 12 to 15 billion dollars. These bonds are highly rated as AAA because they are backed by Members States' share capital. For its part, the IDA is funded through replenishments voted, in large part, by the affluent members of the organization. The IDA provides long term interest free loans to the 80 poorest countries in the world, of which 39 are in Africa. Repayment periods can go up to 40 years. Since its establishment it has provided credits amounting to 161 billion dollars.

African Development Bank

Established to help development efforts on the African continent, the African Development Bank (AFDB) Group is comprised of three separate entities under the auspices of a single management team, which is led by a President. They include the AFDB which is the parent institution, and was created on 4 August 1963 in Khartoum by the then 23 newly independent African countries; the African Development Fund (ADF) forged on 29 November 1972 by the African Development Bank and 13 non-African countries; and the Nigeria Trust Fund (NTF), set up in 1976 by the Federal Government of Nigeria. The AFDB Group's mission is to help reduce poverty, improve living conditions in Africa and mobilize resources for the continent's economic and social development. With this objective in mind, the institution aims at assisting African countries – individually and collectively – in their efforts to achieve sustainable economic development and social progress. Fighting poverty is at the heart of the continent's efforts to attain sustainable economic growth and this is reflected in the tasks of the AFDB. In these efforts geared at reducing poverty, the AFDB seeks to stimulate and mobilize internal and external resources to enhance investments and to provide its regional member countries with technical and financial assistance. One of the key strategic aims of the bank is to become the preferred partner in Africa; providing quality investment and advice. To do so, the bank has sought to augment selectivity, with a particular operational focus on infrastructure, governance and developing a more robust private sector and system of higher education. Through investments in such fields, it hopes to add value directly to regional integration efforts, to assist Middle Income Countries (MIC) and fragile states, enhance human development, and foster efforts in agriculture. Knowledge-generation, climate change and gender are being mainstreamed in all the institution's operations. The Members of the AFDB Group include 53 independent African countries and 24 non-African ones. Turkey has been in the process of finalizing procedures to become a member of the Bank Group. To become an AFDB member, non-regional countries must first be members of the ADF.

Asian Development Bank

The Asian Development Bank (ADB) was created in 1966. In accordance with the Establishing Agreement (or the Charter) "the purpose of the Bank shall be to foster economic growth and co-operation in the region of Asia and the Far East … and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually" (ADB Agreement). The main vision of the leaders was to forge a financial institution that would be Asian in character and that would enhance economic growth and co-operation in Asia. Initially the bank dwelt on projects that fostered the production of food and rural development. It later embraced an emphasis on education, health and infrastructure support. In the 1970s, when the oil crisis was at its apogee, the ADB shifted more of its assistance to support energy projects; especially those promoting the development of domestic energy sources in its member and client countries. During the 1980s the bank ventured into its first equity investment while keeping a keen eye on infrastructure lending. In the late 1990s its attention was captured for the most part by its response to the Asian financial crisis. ADB responded with projects and programs to fortify financial sectors and create social safety nets for the poor. Towards the end of the 1990s the ADB adopted poverty reduction as its overarching goal. Recent areas of focus have been addressing or containing health challenges, including AIDS and influenza. From 31 members at its birth in 1966, the ADB has expanded to encompass 67 members. Of this number, 48 are from within Asia and the Pacific and 19 are from outside these areas.

Inter-American Development Bank

The Inter American Development Bank (IDB) was formed in 1959, when the Organization of American States crafted the Articles of Agreement establishing it. Pursuant to the Agreement, "the purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively" (IADB Agreement: 5). So, the IDB has been a keen supporter of "efforts by Latin America and the Caribbean countries to reduce poverty and inequality and aims to bring about development in a sustainable, climate-friendly way."[4] Such is the umbrella goal of the IDB. Alongside this are two strategic goals: addressing the special needs of the less developed and smaller countries and providing a stimulus for development through the private sector. The Bank is "the largest source of development financing for Latin America and the Caribbean, with a strong commitment to achieve measurable results, increased integrity, transparency and accountability." It is stated on its website that "the Bank has an evolving reform agenda that seeks to increase its development impact in the region."[5] Its shareholders are 48 member countries, including 26 Latin American and Caribbean borrowing members. It has an Institutional Strategy, contained in the Report on the Ninth General Increase in the Resources of the Bank. Moreover, it has developed strategies for four sector priority areas, namely: social policy for equity and productivity; institutions for growth and social welfare; competitive regional and global international integration; and protection of the environment, response to climate change, promotion of renewable energy and ensuring food security.

European Bank for Reconstruction and Development

The EBRD was created in 1991 as the first international financial institution of the post Cold War era. It was established following the endorsement of the Agreement Establishing the European Bank for Reconstruction and Development that was signed in Paris on 29 May 1990 and entered into force on 28 March 1991. The EBRD was formed in response to major changes in the political and economic climate in Central and Eastern Europe that ensued following the liberal drive that swept through Eastern and Central Europe in the 1980s. As such the Bank was created to assist in the development of market economies in the region following the collapse of communist regimes. Its activities were launched less than two years after the fall of the Berlin Wall; the EBRD began operations in April 1991. Unlike other development banks, the EBRD operates under a mandate that has political undertones, in that it seeks to help only those countries that are "committed to and applying the principles of multi-party democracy [and] pluralism" (EBRD Agreement, Art. 1). The EBRD supports the funding of projects from central Europe to central Asia and it tends to invest mainly in private sector clients whose needs cannot be fully met by the market. In this case, the bank fosters the transition towards open and democratic market economies. As reiterated on its website, the aim of the bank is to promote well-functioning market economies – where businesses are competitive, innovation is encouraged, household incomes reflect rising employment and productivity, and where the environmental and social conditions reflect the people's needs. The bank is owned by 61 countries and two intergovernmental organizations.

[4] http://www.iadb.org/en/about-us/about-the-inter-american-development-bank, 5995.html
[5] http://www.iadb.org/en/about-us/about-the-inter-american-development-bank, 5995.html

European Investment Bank

The European Investment Bank was established in 1958 following the signing of the Treaty of Rome. According to the Treaty; “the task of the European Investment Bank shall be to contribute, by having recourse to the capital market and utilizing its own resources, to the balanced and steady development of the common market in the interest of the Community” (Treaty of Rome: 45). The EIB is the long-term financing institution of the European Union and its main task is to help implement the EU's policy objectives by financing promising business projects. The Bank operates on a non-profit maximizing basis. It works in the framework of a rolling three year operational plan, approved by its Board of Directors and updated every year. The EIB Group consists of the European Investment Bank and the European Investment Fund (EIF). As suggested earlier it is owned by the Member States of the EU.

Headquartered in Luxembourg, the bank also has operations in non Member States. Outside of the EU, the EIB is active in over 150 countries, working to implement the financial pillar of EU’s external cooperation and development policies (private sector development, infrastructure development, security of energy supplies and environmental sustainability). As the largest international non-sovereign lender and borrower, the EIB raises the resources it needs to finance its lending activities by borrowing on capital markets, mainly through public bond issues. The role of the EIB outside the EU is to support EU external policies (including enlargement; neighborhood and development cooperation policies) through its financing operations in support of the economic, social and environmental sustainable development of the partner countries (Wise Persons’ Report, 2010: 2).

Islamic Development Bank

The Islamic Development Bank is an international financial institution established in pursuance of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries held in Jeddah in Dhul Q’adah 1393H, which is aligned to the conventional calendar date of December 1973. The launching meeting of the Board of Governors took place in Rajab 1395H (July 1975), and the bank formally opened its doors on 15 Shawwal 1395H (20 October 1975). The main goal of the Bank is to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly, in accordance with the principles of Shari’ah, that is, Islamic Law. The functions of the Bank are to participate in equity capital and grant loans for productive projects and enterprises, as well as providing financial assistance to member states in other forms for economic and social development.

In 1424H (2004), the Bank adopted a new strategy entitled the IDB Group Strategic Framework. Under the new strategy, the IsDB hopes for greater cooperation and coordination among the group members to ensure complementarity and optimum collective impact in member countries. The IsDB Group is committed to alleviating poverty, promoting human development, science and technology, Islamic economics, banking and finance, and enhancing cooperation amongst member countries, all in collaboration with their development partners.

The bank is now a major finance group. It is composed of five different entities that include the Islamic Development Bank; the Islamic Research and Training Institute; Islamic Corporation for the Insurance of Investment and Export Credit; the Islamic Trade and Finance Corporation and the Islamic Corporation for the Development of the Private Sector.

Eurasian Development Bank

The Eurasian Development Bank (EDB) is an international financial institution created in order to foster economic growth and integration processes in the Eurasian region. The Bank was founded by and intergovernmental agreement that was signed in January 2006. One of the primary goals of the EDB is to evolve into a key regional multilateral development finance institution that will supply long-term financing to the EURASEC countries. Based in Almaty, the EDB's mission is to facilitate the development of market economies, economic growth and the expansion of trade and other economic ties in its member states by forging and executing investment activities. The Bank strives to become a linchpin in financing infrastructure. It also aspires to be a catalyst for the expansion of the integration processes among member states. The Bank's key areas of emphasis for financing activities are in the areas of electric power, water and energy, transportation infrastructure; high-tech and innovative industries. In accordance with the EDB Strategy for 2011-2013, the Bank's activities will be aimed at creating conditions for sustainable economic development, deepening the integration processes between its member states, and overcoming the consequences of the global financial and economic crisis in its client countries.

Development Bank of Southern Africa

The Development Bank of Southern Africa (DBSA) was established on 30 June 1983. The purpose of DBSA is to accelerate sustainable socio-economic development by funding physical, social and economic infrastructure. DBSA's main task is to improve the quality of life of the people within the region of Southern Africa. The Bank plays a multiple role of financier, counsel, partner, implementer and integrator, aiming to mobilize finance and expertise for development projects. It seeks to advance development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions. Located in Midrand South Africa, the Bank's strategy is underlain by two major themes. They include the generation of investment in human and physical assets that serve the poor, directly and indirectly, and that support broad-based wealth creation in terms of infrastructure and capital. Secondly it also entails the mobilization, development, application, and sharing of knowledge in support of an enabling developmental environment. Given the scope of the development challenge, limited resources and many actors, the strategy is focused on the Development Bank acting as catalyst, integrator, centre of excellence and strategic implementer. Over the ten-year period leading to 2014, the Bank has plans to invest a total of 45 billion Rands, of which 30 billion Rands will be in South Africa and 15 billion Rands in the rest of Southern Africa.

East African Development Bank

The East African Development Bank (EADB) was established in 1967 under the treaty of what was then known as the East African Cooperation, which has since become the East African Customs Union (EACU). Following the breakup of the community in 1977, the Bank was re-established under its own charter in 1980. Under this charter, its role and mandate were reviewed and its operational scope expanded. In its expanded operational scope, the Bank offers a broad range of financial services in the Member States of Kenya, Uganda, Tanzania and Rwanda, with an overriding objective of strengthening socio-economic development and regional integration. EADB plays a threefold role of lender, advisor and development partner. The Bank's mission is to be an efficient provider of quality customer-oriented financial products and services for Regional Development. EADB is owned by the four member states of Kenya, Uganda, Tanzania and Rwanda. Other shareholders include the African Development Bank, the Netherlands Development Finance Company (FMO), the German Investment and Development Company (DEG), SBIC-Africa Holdings and the Commercial Bank. The Bank has its headquarters in Kampala, Uganda, and country offices in Kenya, Uganda, Tanzania and Rwanda.

Caribbean Development Bank

The Caribbean Development Bank (CDB) is a regional financial institution which was established by an Agreement signed on October 18 1969, in Kingston, Jamaica, and entered into force on January 26 1970. In accordance with Article 1 of its Charter, the purpose of CDB is "to contribute to the harmonious economic growth and development of the member countries in the Caribbean and to promote economic cooperation and integration among them, having special and urgent regard to the needs of the less developed members of the region." Located at Wildley, St Michaels in Barbados, the Bank's mission statement is as follows: “CDB intends to be the leading catalyst for development resources into the Region, working in an efficient, responsive and collaborative manner with its BMCs (Borrowing Member Countries) and other development partners, towards the systematic reduction of poverty in their countries through social and economic development” (Caribbean Development Bank 2008: 4). The CDB’s Strategic Plan for 2010–2014 articulates the ways in which the Bank proposes to discharge of its mandate to assist BMCs to pursue their development objectives of attaining a sustainable rate of economic growth, reducing poverty and building resilience to external shocks (CBD, 2010: 1).

West African Development Bank

The West African Development Bank (BOAD) is the common development finance institution of the Member States of the West African Economic and Monetary Union (WAEMU). It was established by an agreement signed on 14 November 1973 and became operational in 1976. Based in Lomé, Togo, it is an international public institution whose purpose, as provided for under Article 2 of its Articles of Association, is to promote a balanced development of its member states and foster economic integration within West Africa by financing priority development projects. The member countries are Benin, Burkina-Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. In 2001, WADB established priority working areas, with particular emphasis on poverty reduction, economic integration and the promotion of private sector activities. The Bank’s financial products include long - and medium-term loans to finance investment projects and recapitalization funding. It extends financing to national financing institutions.

Central African Development Bank

Established by an Agreement of 3 December 1975, the Central African States Development Bank (BDEAC) is the development financing arm for the Central African Economic and Monetary community (CEMAC), which includes Cameroon, Central Africa, the Congo, Gabon, Equatorial Guinea and Chad. It is an International Financial Institution endowed with full legal personality and financial autonomy. Based in Brazzaville, Congo, the Bank’s mission is to promote economic and social development of the member states of CEMAC, particularly through the mobilization of financial resources in order to fund national and multinational projects contributing to the economic integration of the area, and promoting private sector development. In the current financial landscape of the Central African region, BDEAC positions itself as an international development financing institution that mainly promotes investments in major infrastructure or agricultural programs and projects as well as private sector development. In addition, at the local level BDEAC identifies itself as a strategic partner for national financial institutions which mainly offer financing oriented to covering short-term requirements. The missions of the Bank include fostering the socio-economic development of CEMAC countries through the funding of national and multi-national investments and economic integration projects in particular. It also includes support for states, sub-regional organizations, financial institutions and economic players in their effort to mobilize financial resources and fund projects. Furthermore, it assists these various actors to fund feasibility studies of potential programs and projects.

Bank of the South

The Bank of the South is an initiative of countries that comprise the Union of South American Nations (UNASUR). It seeks to ensure regional economic independence in a continent that has suffered severely from dependence on international financial institutions, such as the World Bank and the International Monetary Fund (IMF). Through the bank some of the leaders of the region hope to eventually replace funding, loans and credits provided by the IMF, with direct financing from the region's countries, based on a philosophy of integration, cooperation and solidarity. The bank was officially created in May 2007 at a meeting in Quito, but inaugurated in September 2009. In the same year its operations were launched with seven billion US dollars pledged by Argentina, Brazil, and Venezuela at 2 billion US dollars each. Ecuador and Uruguay provided the sum of 400 million dollars each, while Bolivia paid in 200 million dollars. While there are currently only seven member countries, any country in South America is eligible to borrow.

Summary

To summarize, there are continental banks as the Asian Development Bank, African Development Bank, Inter-American Development Bank and the European Bank for Reconstruction and Development. The main purpose of these banks is to contribute to the economic development and social progress of their regional members individually and collectively. The Banks are comprised of regional and non-regional member-states. In many instances the major shareholders of the regional banks are non-regional members. This is the case of the dominant position of the US in the Inter American Development Bank and the European Bank for Reconstruction and Development. The US is also very influential in the other major continental or regional development banks.

The European Bank for Reconstruction and Development is a distinct entity as it is a first transition bank. Its activities are mainly concentrated in Central and Eastern European countries and Central Asia. The main purpose of the bank is to foster the transition towards open market-oriented economies. As for the European Investment Bank, it is owned by European Union Member States. The institution is concerned with "furthering the objectives of the European Union by making long-term finance available for sound investment."[6]

The Eurasian Development Bank and Caribbean Development Bank mainly focus on the promotion of economic integration and cooperation in the region as well as social and economic development of member states. The Development Bank of Southern African is wholly owned by the South African government and as its mandate makes clear, its primary objective is infrastructure development finance in South Africa (SA) and the rest of the Southern African Development Community (SADC). The East African, West African and Central African Development Banks are concentrating on their respective sub-regional development needs and economic integration. On its part the Islamic Development Bank aims to enhance the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Shari'ah law. Finally, the objective of the Bank of the South is to ensure regional economic interdependence (primarily from international financial institutions, such as the World Bank and the IMF). What comes out from this synopsis is that the sub-regional and regional banks all tend to focus on supporting integration efforts of their regions and also place great emphasis on infrastructure support in their investment portfolios. Some of the banks have been cooperating in recent years in addressing some common problems. One area where the World Bank and the continental development banks have been engaged has been in responding to the financial crisis in client countries.

Responses of the Banks to the Crisis

It is true that embryonic efforts have been made by some of the banks to coordinate their efforts in dealing with the crisis in client countries. But as will be discussed in part five, one of the challenges for the appropriate response from the banks has been the issue of coordination. It will become clear that each bank has tended to act in sequestrated isolationism.

World Bank

For IDA countries the Bank considered the use of front-loading: concentrating its three year commitments to the first two years (2009-2010) of IDA 15. The front-loading was not to be generic but based on a case-by-case assessment of needs and of the pertinence of government policies. No criteria were made public for eligibility to the WB front-loading initiative. Front-loading does not mean there will be additional

[6] http://www.eib.org/about/strategy/index.htm

funds, but a different profiling format for funding depending on the duration of the financial crisis. Also, for IDA countries, the Bank has rolled out a 2 billion dollar facility under the IDA 15 fund for which countries can apply to address infrastructure, health and education needs.

The International Financial Corporation (IFC) has proposed the Infrastructure Crisis Facility (ICF) to address the problems of ongoing infrastructure projects that have been restricted by the liquidity shortfall in emerging markets. The Facility is composed of a loan financing trust, an equity facility and an advisory facility. The IFC will provide the sum of 300 million dollars for the ICF.

Secondly, the IFC is renewing its emphasis on its advisory services in terms of access to finance, support for a business enabling environment and corporate governance. Access to finance related activities includes support for finance infrastructure and support for financial institutions to assess risks. IFC-backed simulations constitute an example of the latter. The IFC estimates a revamping effort of 40 million dollars for its advisory services in the next three years.

Thirdly, in December 2008 the IFC Board approved a Recapitalization Fund for banks facing liquidity shortfalls in smaller emerging markets. The IFC is contributing 1 billion dollars of its own resources to the Fund, with the Japanese government promising an extra 2 billion dollars for the fund.

The IFC has added 1.5 billion dollars to its 1.5 billion dollar Global Trade Finance Program. Initiated in September 2005, the Program facilitates trade by providing guarantees that cover the payment risk in trade operations involving local banks in emerging markets. Together with the German Government, the Bank is rolling out a 500 million dollar Micro-finance Enhancement Facility. This will be used to support micro-finance institutions in more than 40 emerging and developing countries. Finally, on 9 February 2009, Bank Chief Economist Justin Lin proposed in a speech given at the Peterson Institute that the world should create a Marshall Plan-like Global Recovery Plan worth 2 trillion dollars to respond to the global financial crisis.

African Development Bank[7]

Regarding the actions of the Bank in dealing with the financial crisis, it created the Group of Ten officials to monitor the crisis and its effects on African countries. The first meeting of the Group took place on 16

[7] This is based on presentation of Gabriel Negatu (2009). EU MSs that are members of the AfDB are Austria, Belgium, Denmark, Finland, France, Germany, Italy, The Netherlands, Portugal, Spain, Sweden and the UK.

January 2009 in South Africa. What is more, the Bank has been releasing weekly updates on the crisis and its impact on Africa.

On specific substantive actions six key steps have been adopted. Firstly, the Bank restructured its portfolios in almost every African country in which it is active. This entails the redirection of resources from projects with mediocre success rates towards more viable initiatives. Second, the Bank put in place a Quick Disbursement Loan Facility for countries demonstrating real need. Third, the Emergency Liquidity Facility was also created with a budget of 1.5 billion dollars. Fourth, in June the Board of the Bank also approved a 500 million dollars Global Trade Liquidity Program as the second phase of its trade finance initiative. This followed the first phase that had been marked by the channeling of 500 million dollars to mainly African banks and to finance trade programs. Fifth, it also increased the nature and dispatch of its advisory services to its client countries. Finally, the Bank issued a policy paper on trade finance. The paper considered a proposed initiative of enhancing the trade capacity of countries that required such a change.

The Asian Development Bank[8]

The president of the Asian Development Bank, Haruhiko Kuroda, announced that his institution would step up lending for operations as a response to the financial crisis. First, several billions were to be used to supplement the originally planned sum of 12 billion dollars. In addition, the ADB increased funds for its Trade Finance Facilitation Program (TFFP) from 150 million dollars to one billion dollars in 2009. Finally, it held a major conference in March 2009 entitled 'South Asia Forum on the Impact of Global Economic and Financial Crisis.' The conference provided an opportunity for important Asian stakeholders to exchange views on the implications and lessons to be drawn from the crisis.

[8] EU MSs that are members of the ADB are Austria, Belgium, Denmark, Finland, Germany, Italy, The Netherlands, Sweden, UK, France, Spain, Portugal, Luxemburg and Ireland.

The Inter-American Development Bank[9]

In October 2008 the IADB created the Emergency Liquidity Fund worth 6 billion dollars. Through its fast modes of allocation it supports countries that are facing short-term challenges in sourcing funds from international credit markets due to the financial crisis. The Bank recently approved operations worth 900 million dollars to be financed by the fund.

During the course of 2008 the Bank heightened its backing for social initiatives aimed at preventing millions of people falling back into the throes of poverty. It is focusing on improving infrastructure and boosting competitiveness. The Multilateral Investment Fund (MIF) addresses issues relating to micro-enterprises, and endorsed loans and grants worth 166 million dollars in 2008. The Inter-American Investment Corporation on its part approved the use of 553 million dollars for operations mainly backing the activities of small and medium sized enterprises.

On trade financing the bank has created an Aid for Trade Strategic Fund that will accord grants to finance projects that will reduce trade barriers. In all, the Bank increased its loan and credit guarantee and grant approvals from about 250 million dollars to 12.2 billion dollars in 2008. The bulk of the money (11.5 billion dollars) is in loans and guarantees, and is being sourced from its Ordinary Capital to finance 137 private and public sector projects.

European Bank for Re-construction and Development

Initially there were indications that the countries of Eastern Europe and Central Asia would not be affected by the crisis. By the end of 2008, however, it was clear that such inclinations were misplaced, given that the financial institutions of the region were more integrated into the global financial streams than initially thought. When the crisis hit there was no coordinated approach in response. The bank has since adopted measures to address the fallout of the crisis in its members. The first initiative was the so called Vienna Initiative of 2009 that brought together the bank alongside Western commercial banks and

[9] The IADB was established in 1959 to support economic and social development and regional integration in Latin America and the Caribbean. Its headquarters is in Washington DC. The current president is Colombian diplomat Luis Alberto Moreno elected in 2005. The Bank has two arms known as Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF). While IIC focuses on small and medium sized enterprises, the MIF concentrates on micro-enterprises. The IADB and the IIC form the IADB Group. The Bank has 48 Member States who are its owners. Unlike other development banks the IADB is the only institution in which the borrowing countries have the majority of the shares (50.02 percent). This has allowed them to control most of the decision making processes of the organization. It is noteworthy that China is the latest member to join the IADB. It joined in January 2009 and will contribute an up-front sum of 350 million dollars for the bank's Special Operations; Multiple Grant Fund and the Bank's Equity Fund.

the IMF to pledge the sum of 25 billion dollars to be accorded as loans over a period of two years. Second, loans were directed to commercial banks such as those in Latvia to help them bolster their own lending operations. Third, the bank increased its investment portfolio in the region by 50 percent in 2009, and in 2010 the bank's board approved a cardinal capital increase to help support infrastructure projects in the coming years. Fourth, with emphasis on the long term, the bank has expressed its desire to assist countries in their movement away from dependence on primary commodities and to focus more on added value on exports and also on the knowledge economy. One of the main targets of the bank is to help in mobilizing internal financing with less reliance on foreign capital.

European Investment Bank

The EIB Board approved a Corporate Operation Plan (2009-2011) that outlined specific steps to be taken to respond to the crisis in client countries. In 2009 and 2010 the bank increased its lending by 15 billion euros, this being a 30 percent increase when juxtaposed with the proportions of previous years. Also, an extra 2.5 billion euros per year was targeted at small and medium sized enterprises, with an extra billion euros being dedicated to even smaller companies. The bank also developed a new lending window in which cooperation with commercial banks would be enhanced in order to share risks in lending. What is more, the sum of 6 billion euros has been directed to special transport and energy infrastructure facilities. In addition, and mindful that the impact of the crisis has been felt more acutely in some countries than others, a novel funding facility known as the 'convergence lending window' has been created to respond to the needs of client states which have been disproportionately affected by the crisis. The sum of 2.5 billion euros has been allocated to this. The most important of the steps taken was to accelerate the process of capital increase by the board of the bank from the previously agreed 67 billion euros to the current new level of 232 billion euros.

Islamic Development Bank

When the IsDB was created in 1975 its authorized capital was 3 billion dollars. Today, the 56 member bank has capital of 44 billion dollars. What the bank offers that is unique in terms of the financial crisis is first and foremost its model of finance. It does not engage in the excessive credit and excessive speculation which were part of the main causes of the crisis. Both are prohibited under the Islamic finance practices of *riba* and *gharathat*: practices that have contributed to the blurring of the linkages between the real economies and the financial world. This approach has meant that it has not engaged in business with institutions which were involved in derivatives and toxic asset trading. In fact, during the critical period of the crisis in 2008 as other credit houses limited the channeling of credit, the Islamic financial bodies actually saw an increase in their disbursements. For this the bank received consistent triple AAA ratings of Standard and Poors, Fitch as well as from Moodys. In terms of responses to client countries, overall financing has been scaled up by five percent and project financing by 17 percent since the beginning of the crisis. Of greater importance for socio-economic development is the fact that the bank is developing an innovative vision for the financial sector that bolsters the field of Islamic finance, public finance, micro-finance and *Zakat*.

Eurasian Development Bank (EDB)

Before the financial crisis of 2008, EDB member countries such as Russia and Kazakhstan experienced economic success which was mainly driven by the favorable conditions in the international commodity market. However, the crisis pushed the Bank to implement immediate measures in order to mitigate the consequences of the international financial meltdown. In April 2009, the EDB Council approved an anti-crisis program of operations. Its Council and Executive Board declared their intention to focus on investment projects that have substantial multiplicative effects (indirectly increasing GDP and employment in other sectors of the economy) and promote industrial cooperation between member states. It was agreed therefore that the projects considered by the Bank in 2009 were to be oriented towards overcoming the fallout of the crisis in the economies of its founding states, to wit, Russia and Kazakhstan – and its new members, Armenia, Belarus and Tajikistan.

One other important step for the EDB was the appointment of the Eurasian Development Bank as the Implementing Agency for the EURASEC Anti-Crisis Fund that had been adopted by the members of that constellation (EDB, 2010a: 116). The EURASEC Anti-Crisis Fund has an allocation of up to 8.5 billion dollars. The resources of the Fund are to be used for sovereign loans, stabilization credits and the financing of interstate projects (EDB, 2011).

In order to ensure further growth and development the member-countries have insisted on the need to enhance essential infrastructure, especially in the areas of electricity supply, transportation, and telecommunications. The investment required for transport, nuclear power, telecoms and agricultural infrastructure in Russia and Kazakhstan will be significant. However, direct foreign investment in these sectors is almost negligible. For instance, foreign direct investment in Russia's electricity, transportation and telecoms sectors is just 3 per cent of total investment as highlighted by the Bank (EDB, 2007). It adds that, "while most of the banks in the CIS are struggling, ironically the crisis has only boosted the EDB profile and supported the bank's expansion." It notes further that there are a number of promising projects, including those in the area of energy, transport and manufacturing (EDB, 2010).

What is more, in 2009, the EDB approved financing for four projects in Kazakhstan totaling 523.2 million dollars in the areas of agriculture, energy and mining. In the same year it also approved financing for four new projects in the Russian Federation for a total of 266.3 million in energy, mining and communication (EDB, 2010a: 130-131). In 2010 the EDB Executive Board adopted the Program of Trade Financing Instruments and Development of Mutual Trade between the Member States by opening Target Loan Facilities for financial institutions. The objective of the initiative has been to develop new external financing sources for financial institutions from the member states and securing loans for actors engaging in foreign trade.

Development Bank of Southern Africa (DBSA)

The global financial crisis had an impact on the development of the Southern African economies. The Development Bank of Southern Africa contributed R8.9 billion for development despite the economic downturn characterized by a rapid strengthening of the Rand from the previous financial years against major currencies, a sharp decline in interest rates and an increase in the costs of borrowing, specifically on short-term funding. The Bank has spent R550.2 million on developmental initiatives in 2009-10, including support in the following areas: first, it channeled funds to subsidize lending rates to under-resourced municipalities (to the tune of R72.9 million). In this regard its Targeted Infrastructure Program (TIP) has provided concessional lending rates to poorly resourced municipalities that would otherwise fall short on financing. Second, it has expanded expenditure on research and advisory services (amounting to R69.1 million). Third, it has also widened its technical assistance (R67.4 million). In this respect it has provided funding, advice and information to strengthen the capacity of client institutions to plan, implement, manage development projects and deliver services. It has also supported processes to remove obstacles and create an enabling environment for development. Finally, it increased its expenditure through the DBSA Development Fund (its contribution being R340 million). The Fund promotes capacity building for development by providing grants, technical experts for under-resourced municipalities under the Siyenza Manje program, training to enhance the skills of officials, financial and administrative services to various development agencies.

In specific sectors the bank has been keen to support actors in the area of agriculture, especially in the realm of agricultural infrastructure. For instance, DBSA advanced millions in funding projects in Mauritius (in the field of aquaculture) and in Mozambique (in the sugar sector). Its involvement in the agricultural sector is guided by the principles of multiple stakeholders and beneficiaries.

The bank equally regards tourism as an important sector. It has backed tourism projects as the drivers for development. Transport infrastructure development (i.e. airports, roads, railways) has also been on its radar it considers the transport sector as key for the growth of the tourism industry. It provides technical assistance for tourism plans through co–financing and advisory support.

East African Development Bank (EADB)

The global financial crisis had a major impact on the economic performance of the East African Development Bank (EADB). Due to portfolio rationalization and a decline in disbursements, the Bank recorded a 8.79 million dollar loss. The Bank's balance sheet declined from 275.60 million dollars at the end of December 2007 to 243.81 million dollars at the end of December 2008 (EADB, Annual Report, 2008).

From its perspective, the Bank's operations in 2009 were characterized by a scaled down processing of new credit. During the review period, efforts towards project supervision and debt recovery were increased. Through a proactive approach, various actions were taken by the Bank on distressed projects, including restructuring and realization of arrears. The positive results of the stepped up recovery were strong debt collection and gains from projects that were previously written off (EADB, Annual Report, 2009: 9).

In 2009, a new operating environment became reality due to the global economic meltdown. The meltdown did not directly impact the client countries in terms of their inter-connections with the global financial system, but the crisis resulted in the scaling down of new lending given that the effective demand of the potential clients was constrained. The Bank then increased its pace of lending. Medium- and long-term lending accounted for 19 million dollars while 0.9 million dollars was approved towards asset finance lease (EADB, Annual Report, 2009: 45). The institution has as its objective an increase in its role in financing projects and programs in infrastructure, agriculture and social sectors. In particular, it has pledged to continue to support those segments of infrastructure that are amenable to private sector participation, while at the same time providing support to the public sector in the development of infrastructure projects that are important for the economic and social development of the member states.

Caribbean Development Bank

The consequences of the Global Financial crisis had a major effect on the determination of the lending instruments by the Caribbean Development Bank. The bank embraced new modes of lending. It increased its focus on policy-based lending aimed at restructuring client debt, minimizing the debt service burden on current government revenues, and reducing debt-to-GDP levels (Caribbean Institutional Investor Sponsored Report, 2010). Policy-based lending, as used by the bank, is intended to be complemented by investment lending. While the bank has allocated 100 million dollars for policy-based lending, it has allocated 260 million dollars as investment loans that mainly target investments on infrastructure. There has also been an emphasis on intermediary lending to support micro, small and medium size enterprises and access to tertiary education through student loans. It is hoped that its flagship initiative known as the Basic Needs Trust Fund (BNTF) will provide up to 78 million dollars in grant resources and address social protection issues through the provision of resources for social and economic infrastructure at the community level. Apart from the policy-based loans that have been used by the bank to respond to the crisis, recourse has also been made to policy-based guarantees; interest stabilization fund; investment loans for infrastructure; credit lines to institutions; and direct poverty reducing investments, for example, through the BNTF (Economics Department Caribbean Development Bank, 2008: 8-9).

West African Development Bank

The Bank has highlighted the importance of its lending for agricultural and infrastructure projects in the region of West Africa. Like the Central African Development Bank the entity is influenced by the economic and political realities of its member states. This entails that it depends mainly on the paid up capital by its shareholding members that are themselves in need of development money. So instead of the states looking at the bank for new initiatives and products (funds and facilities) the bank has been looking up to its cash-strapped members for re-generation.

Central African Development Bank

At the beginning of 2009 leaders of the Economic and Monetary Community of Central African States (CEMAC) met in Gabon and took a number of important decisions (CEMAC, January 2009) on the ways of responding to the financial crisis (ibid: 2). They welcomed the efforts made in elaborating a Program for Economic Integration for CEMAC's Vision 2025. The leaders called for a regional conference to address the problems in key sectors affected by the crisis. They also called for the immediate implementation of the Program for Economic Integration; the issuing of bonds to increase funding sources for public investment projects; the creation of a guarantee fund for small and medium size enterprises (SMEs) (ibid: 6); the adoption of ways of easing access to credit; the creation of a regional observatory that will oversee a sound legal and business environment; and the creation of a Committee of Surveillance in CEMAC that will be composed of the Commission, the Central African Banking Regulator (COBAC), the Development Bank for Central African States (BDEAC), and Member States (ibid: 7). The bank has therefore scaled up lending in the areas of agriculture and, above all, infrastructure (energy and transport facilities). It is faced however with serious problems of liquidity given the slow pace of repayment of debts. In 2011 the government of Congo came to the assistance of the bank with limited capital of approximately 13 million dollars (BDEAC, 2011). The bank has, like its West African counterpart, been severely restricted by its funding problems.

Bank of the South

Banco del Sur was inaugurated in September 2009. It is the youngest of the development banks, and its founders have varied ambitions for the bank. While President Chavez of Venezuela has exposed his desire to empower the bank with both development and monetary coordination policy mandates (by chipping away powers from the IMF), Brazil has taken a more cautious approach regarding the entity, mainly as a means to fund infrastructure projects. The bank was created after the crisis hit in 2008. It is very early to actually state what nature of action the bank has adopted for its members, considering its embryonic state.

Summary: Trends

In terms of funding availability, which is the most salient feature for the banks, it is almost taken for granted by the global and four main regional development banks that there will be resources, but this is not the case for the sub-regional banks, save the DBSA where South Africa is a dominant force. This dimension of funding has also meant that the global and regional banks have responded in a more robust and structured manner than the sub-regional development banks. This may signal that in those banks where involvement of countries of the North is low, the performance is also diminished.

Secondly, the global and regional development banks created specific multi-billion dollar funds and facilities to deal with the crisis. This has not been the case for the sub-regional banks- with the remarkable exception of the European Investment bank. Thirdly, it is very revealing that there has not been a serious discussion by the banks of rethinking the model of finance that engendered the crisis in the first place. The IsDB has a model that frowns upon the speculation and excessive credit that brought the global financial system to its knees, yet there has not been serious engagement or exchange of ideas on how such an approach could be widened and adapted in other contexts.

Fourthly, while it is true that the emerging countries are gaining influence and demanding more privilege due to their increasing economic clout, this is not transcribed in real influence in the development banks due to their lackadaisical or passive approach of involvement with the development banks. The US, Japan and other Western nations are the dominant players in the global and regional development banks. Local hegemons, like Nigeria for the AFDB, remain vital in the various sub-regional development entities.

Convergence of challenges and Opportunities for Cooperation

So what does all of this mean? The banks are faced with common structural problems. They include the problems of coordination, of a deficiency of resources, the problematic access to banks' resources by the private sector and finally the issue of red tape. Examination of each of the challenges is accompanied by specific ideas as to how some of the problems emanating from the challenges could be assuaged.

Coordination

It is arguable that the banks have specific comparative advantages in what they do. It is reasonable to suggest that the World Bank should focus on vital aspects such as climate change, the provision of knowledge and other global public goods. The problem is however that regional development banks (RDBs) and sub-regional development banks (SRDBs) are also involved in the provision of such goods at the regional and sub-regional levels. It makes sense therefore for the banks to cooperate for reasons which are now to be discussed.

Firstly, as stated in the Meltzer report of 2000 better coordination between the banks will reduce the dangers and possibilities of duplication of services as well as the harmful competition for scarce resources (Meltzer Commission, 2000: 10). G20 leaders in Pittsburgh in 2009 recognised that it is vital for the WB and (S)RDBs to work together if common global challenges like climate change and food insecurity are to be addressed (G20 Leaders, 2009: 24). Secondly, the increased involvement of the RDBs in the work and operation of the WB will rectify the perception from many quarters that the WB is a detached and distant organization that seldom reflects the concerns of the poor.

Thirdly, from a practical point of view, increased coordination could actually lead to an alignment of the manner in which the institutions operate. In this regard modalities could be crafted to have better exchange of staff, and mechanisms could be forged to establish consolidated annual meetings whereby the Boards and management of all the institutions meet with the IMF to discuss issues that have hitherto been limited to the WB/IMF cooperation through the Spring and Annual Meetings. It is true that leaders of some of the RDBs and SRDBs are often invited to these periodic meetings of the WB, but this needs to be more systematic and built within a goal-oriented strategic framework. A major advantage of such increased cooperation is certainly the prospect of reduced costs in terms of what the RDBs use as funds to organize their own annual meetings. Consolidated annual meetings of all the Banks will reduce organizational costs and enhance the involvement of the RDBs and SRDBs in the work of the WB. What is of greater importance, however, is that such periodic and systematic collaborative framework will strengthen a sense of shared responsibilities for global challenges the effects of which are felt differently at the regional and sub-regional levels. Within such platforms for cooperation, an improved exchange on technical issues of problem solving and best practices could be enhanced.

The preceding points are all validated by the legal or constitutional provisions of the banks. The founding texts of most of the banks allow the institutions to cooperate with other international organizations that work in the fields of interest as the various development banks. For instance, Section 8 of the WB Articles of Agreement (IBRD) makes clear that the WB shall cooperate with any general international organization and with public international organizations that have specialized responsibilities in related fields.

In order to ensure that the collaboration between the WB and (S)RDBs would be on a regular basis the formation of a focal point within the WB could be useful. Such an institution could help to coordinate the work of the (S)RDBs and the WB. It would help to avert problems such as those generated by the double financing of projects. In this regard it is also important to establish a legal framework that will clearly show what kind of projects can or should be financed by the RDBs and under which circumstances the projects can also be co-financed by the WB. That could be one of the ways to overcome the current avid competition for scarce resources. Conversely, it is fair to state that such competition is not always a bad thing. The establishment of a legal body that will deal with the (S)RDBs is important as it will help to enhance the collaboration not only between the WB and (S)RDBs, but among (S)RDBs themselves as well. The institution will facilitate cooperation, encourage the sharing of experiences, information and views among the banks' officials, which is crucial for further policy coordination. In addition, regular meetings of bank officials could serve as grounds to discuss common problems and to accelerate the finding of solutions. The (S)RDBs could also share information with the WB by providing reports that give an overview of ongoing projects, and perhaps suggest fields or projects for co-financing. The WB and (S)RDBs need to complement each other rather than compete with each other in providing financial support for client states.

So the question that can be posed in this regard is; should the RDBs play a greater role in the WB? Should they represent the voice of their member states in a proper/legal way by obtaining voting power in the WB? That is a hard question to answer, as to give voting power to the (S)RDBs means to acknowledge the (S)RDBs as shareholders of the bank. The bank as it is known is accountable to its member states.

Resources

In all the banks considered a recurrent problem has been a lack of resources to deal with pertinent challenges. This is a cardinal problem for the SRDBs of the South, especially those in Africa. It is true that during the financial crisis most of the banks faced a liquidity deficiency. The G20 leaders recognized this problem and decided that capital increases for the WB, the IMF and the RDBs made sense. Yet for those SRDBs that have been short of liquidity, little effort has been made to mobilize resources from alternative sources, including from emerging markets, sovereign wealth funds and, more importantly, from some of the other SRDBs and specialized development banks. The issue of resources is not only about money however, it is also about the human critical mass and wherewithal to grapple with complex financial issues. Cross institutional arrangements for staff exchanges or internships between the banks will be helpful to tackle such problems, as regular training will keep employees up to speed with some of the innovative approaches to problem solving used by their counterparts at the sub-regional, regional or global level.

Access to resources by the private sector

The functioning of the banks tends to leave the impression that they concentrate more on lending to states. This is trite and should not raise eyebrows. The only problem is that the real economy, in terms of manufacturing and the creation of jobs, is fundamentally animated by the private sector rather than by government officials. The role of governments is critical in the fields of providing facilities and personnel for education, health, research and other public utilities, and the government is also needed for regulating excesses, but the bulk of economic activity is driven by the private sector. Apart from the WB some of the RDBs and the EIB, very little attention has hitherto been placed on private actors by the development banks. The WB's IFC branch deals with loans for the private sector. The existence of the IFC as a private sector arm of the WB is an approach worth emulating by the other banks.

Red tape

The issues related to the private sector are also linked to those of red tape. Some of the banks have strict lending standards and prerequisites that are all for good reasons. However some of their practices are also wrapped up by needless red tape that makes it very difficult for client states and firms to accede to their credit lines. The problem of red tape is also connected to the lack of popular buy-in of the activities of the banks. There is a strong sense that apart from the WB and RDBs the banks do not communicate what they do with the population. People often tend to be ignorant of the existence of the banks and what they are doing, even if their actions are benign. The question of popular awareness is however linked to the nature of the benefits of the actions of the banks. None of the banks have entertained the option or mechanisms of directly funding projects of households at little or no cost in terms of interest rates. In this regard, it could be vital for the banks to revisit the model of the IsDB that tends to respond directly to the socio-economic and human needs of the population. They could seriously explore means and ways of supporting credit unions and other micro funding mechanisms that have a direct impact on those who have had to bear the greatest impact of the crisis: the poor.

Conclusions

The financial crisis that hit the global economy in 2008 exposed many problems in the global financial system. But the crisis has also had a serious impact on the real economy and on the lives of people around the world. At the moment of writing no one can determine with certitude exactly what will be the eventual epilogue of the euro zone crisis that has hindered the efforts that are being taken by other regions to deal with the fallout of the crisis. In all the regions critical sectors have been affected by the crisis, including trade, infrastructure, agriculture and tourism. In this paper we have presented a synopsis and seminal analysis of how the development banks responded to the crisis. A number of challenges were identified in the approaches of the banks. The discussion of some of the challenges was accompanied by allusions as to ways in which the banks can minimize the challenges and enhance their prospects of maximizing the benefits of their interventions in client countries, in helping to reduce some of the real economic problems felt by people around the world following the financial crisis of 2008.

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