Transformations, ruptures and continuities in IDB's policy from 1980 to the present

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1. Introduction

Although there are a considerable number of studies about multilateral development banks (MDBs), specific literature about the Inter-American Development Bank (IDB) is not as prolific, especially research with a long-term historic view. This void in economic literature includes the lack of a consistent periodization of the IDB's development and its transformation since its founding. This chapter analyzes the policy lines followed by the IDB from its creation to the present day, focusing on the last three decades. Our objective is to investigate how the IDB's lending policy from the 1980s to present day has expressed the transformation in mainstream perspectives regarding the 'best' policies to boost economic development and, how those changes defined the successive phases that characterized its policy guidelines. At the same time, we explore whether a larger participation of the borrowing countries in the IDB's governance influenced the kind of credit lines it granted in response to the specific needs of regional development, unlike the lending policies of other multilateral banks that confer donor countries more voting power in the governance of those institutions.

With the creation of the IDB in 1959, Latin American countries gained a regional bank to finance projects related to their economic development and a source of foreign currency in a context of recurring balance of payment crises.

This chapter shows that, although the IDB's mandate remained unchanged over the course of more than fifty years from its launch, its lending policies in the region changed over time, consistent with the prevailing policy framework in developed countries. Unlike in other MDBs with a presence in the region, especially the World Bank, Latin American countries played a bigger role in the IDB's decision-making process from the very moment the regional bank was created. However, donor countries enforced IDB policy guidelines, with a variable degree of conflict over the different periods.

In terms of the IDB's transformation, we establish that the institution underwent a transition phase, which began in the 1980s, marking a move away from a developmental role associated with state-led industrialization processes. The IDB became a supporter of liberalization and deregulation policies in the 1990s, an orientation that remained almost unchanged until the 2008–2009 global crisis, during which the institution played an important countercyclical role and noticeably increased its total loans. With more competition from national and other regional development banks, starting in 2010, while maintaining market-friendly fundamentals, the IDB lending policy focused heavily on the development of physical infrastructure in the region, seeking to boost competitiveness to promote free trade, and the transformation of economies in favor of more environmentally sustainable models.

In recent years, numerous studies have differentiated multilateral development banks (MDBs) from regional development banks (RDBs), highlighting the particularities of the latter.[1] In addition, several studies compare the different characteristics of RDBs, including the IDB.[2] Although a handful of specific studies about the IDB were published in the 1990s, including Griffith-Jones (1994), Tussie (1995) and Scheman (1997), research updates or new studies are few and far between. The chapter by Sarah Babb in this book sheds light on the significant changes in the IDB's policy during the 1980s as a result of U.S. pressure on MDBs and Latin American countries, whereas this chapter is a contribution to a more comprehensive long-term characterization of IDB policy guidelines and their transformation over time.

The chapter is broken down into five sections. In the next section, we describe the historical context that led to the creation of the IDB. In the second, we consider the general objectives and mandates under which the IDB was created. The third section focuses on IDB funding. Next, we examine the evolution of the IDB from 1980s to present, considering three sub-periods for the analysis. Finally, in the conclusions, we present the main findings of our research.

2. Setting up the IDB

After the Great Depression, the creation of mechanisms and institutions to provide long-term financing of industry and large-scale infrastructure was problematic for Latin American countries. Underdeveloped capital markets and the absence of large experienced banks to carry out this task were major barriers. In the 1940s, the public sector began to play an active role in efforts to address these failures (and incompleteness) in financial markets, by promoting industrialization and generating the long-term financing mechanisms needed to boost those processes. In fact, different types of state-owned financial institutions were created to provide funding for economic development. In some cases, these public financial institutions had a mission that went beyond fixing financial markets' failures; they engaged in economic planning, creating markets and developing entire sectors in the industrial structure (Penna and Mazzucato, 2015).

However, import-substitution industrialization (ISI) required not only funding in domestic currencies, but in foreign currency as well. Increasing demand for imports of technology, inputs and capital goods clashed with the scarce foreign currency generated by primary exports. From the 1950s onwards, balance of payments crises were widespread throughout the region. Although foreign direct investment, especially from the United States, played an important role, it was insufficient to cover the external financing needs of the ongoing processes. In this context, the creation of multilateral

[1] In their analysis of some aspects of banks governance, a number of authors agree that the main strategic advantage of RDBs is the participation of donors and borrowing countries in their decision-making structure (Griffith-Jones, 2002; Birdsall, 2003: Vivares, 2013). There has also been considerable progress in the study of the financial dimension of RDBs and their role in development processes (Rodrik, 1995; Sagasti and Alcalde, 1999; Meltzer, 2000; Ratha, 2001; Birdsall and Rojas-Suarez, 2004).

[2] Sagasti (2002), Sagasti and Prada (2006), Prada (2012), and Humphry and Michaelowa (2010), among others, compared the IDB with other supranational financial development institutions.

financial development institutions was an opportunity to obtain external financing required by the ISI processes.

Indeed, the first multilateral and regional development banks were created in the second postwar period with the main objective of accelerating development of developing countries in Africa, Asia and Latin America. In a geopolitical context favorable to regional integration, these multilateral banks were conceived as essential instruments in the promotion of development, especially in the 1950s and 1960s (Vivares, 2013; Mistry, 1995).

The World Bank was the first institution in which Latin American countries placed their trust and expectations, but they were disappointed soon after. The multilateral bank did not prioritize the region in its lending policy and focused its credits on infrastructure projects, leaving a gap in the financing needs of the local productive sectors. The U.S., which held a dominant position in the World Bank's decision-making process, felt that private foreign investment should play a leading role in providing the funding for developing countries' needs, and MDBs should play a secondary role (Babb, 2009). In fact, only a few developing countries were able to afford the interest rates charged by the World Bank.

In this respect, authors such as Sagasti (2002) and Humphrey (2012) point out that the creation of a specific regional development bank like the IDB was related to the financial needs of productive sectors (industrial and agricultural) in the region. According to these authors, Latin American countries demanded foreign financing in greater quantities for productive sectors, while the World Bank, through the International Bank for Reconstruction and Development (IBRD), lent small amounts basically for electrical and transport infrastructure.

However, it was the decision of the United States, rooted in its concern regarding communist expansion throughout the subcontinent, that ultimately made possible the creation of the IDB towards the end of the 1950s.[3]

The interest of the U.S. to consolidate its power in the region increased during the 1950s, as did Latin American countries' resentment toward the power of the north. The U.S. was not especially committed to regional development. It was mainly interested in security-related issues and the expansion of its own trade and financial interests. However, the discontent of important sectors in Latin American countries increased as their demands for economic support for national development plans remained unmet. Both the United Nations and the Organization of American States witnessed the pressure from Latin American governments on the United States during the 1950s (Babb, 2009).

It was in this context that the U.S. agreed to create a regional bank with emphasis on the economic and social development of Latin American countries. Under the presidency of Dwight Eisenhower, it sought to avoid conflict and approached the largest countries in the region, even though it remained reluctant to give substantial financial support. As a regional financial institution for the development of its members, the IDB was created in 1959, with the participation of the U.S. in a hegemonic position (although with no

[3] Nelson (2015).

majority in the voting power of the institution), and eighteen other countries in the region.

3. Objectives and mandates of the IDB over time

The IDB was created with the comprehensive objective of enhancing the economic development of its member countries. Given that the institution was created, in part, as a consequence of U.S. concern regarding the expansion of communism in Latin America, it was given an initial mandate associated with providing resources to social projects and to fighting poverty.

In terms of its governance, the U.S. held more than 40% of the IDB's voting power during its first decade, having veto power in some major decisions that required a special 75% majority (such as granting concessional loans, capital increases or changes in the constitutive agreement). Borrowing member countries held a majority position in the IDB's decision process. This aspect differentiated the IDB from other multilateral banks in which donor members maintained significant majorities, even higher than 70%.[4]

After successive capital increases and the incorporation of new non-regional donor member countries, the voting power agreement amended under the Eighth General Increase in the Resources of the IDB, agreed upon in 1994 and ratified in 1995, established that the voting power of the borrowing countries shall not fall below 50.005% and that of the United States shall not be less than 30%. Therefore, while borrowing countries had the simple majority for most decisions, the U.S. maintained its veto power for some crucial decisions, and could reach simple majority allying with other countries. The IDB established this balance of power for its governance.

According to its articles of agreement, the IDB had to fulfill the following functions: promote the investment of public and private capital for development purposes of the member countries, prioritizing loans and guaranteeing operations which contribute more effectively to economic growth; encourage private investment and supplement it when private capital is not available with reasonable terms and conditions; cooperate with the member countries to orient their policies toward a better use of their resources in ways compatible with the promotion of orderly foreign trade growth; and provide technical assistance for the preparation, financing and execution of development plans and projects.[5]

Like other MDBs, the IDB created a soft-loan window, the Fund for Special Operations (FSO), to lend money to borrowers unable to meet market financial criteria. With this special fund, the IDB could provide concessional loans with more flexible requirements than those imposed on ordinary loans (or hard-loan window).[6] In addition, the institution could make direct loans to the private sector without need for government guarantees, being more flexible than other MDBs in this aspect.[7]

[4] For this reason, Humphry (2012) distinguishes the IDB from the World Bank, which has a majority of non-borrowing countries, and CAF, in which all member countries are borrowers.
[5] IDB (1959), p.5.
[6] However, over the IDB's long history, concessional lending represented only a very small part of the IDB's total lending (IDB, Annual Reports).
[7] Humphry (2012), p. 52.

Although the IDB's articles of agreement did not specify the objective of stimulating member countries' industrial sector, in its early years, the institution supported national development plans based on import-substitution industrialization (Tussie, 1995; Vivares, 2013). In fact, unlike the World Bank—which had allocated 75% of its funds to finance infrastructure projects and only 3% to productive sectors by the end of the 1950s—in the first five years, the IDB channeled almost 50% of its loans to industry, mining and agriculture while social sectors received more than 30% of total loans. Infrastructure projects, on the contrary, received only 20% of the IDB's loans.[8]

In its first decade of operation, the IDB lent more money to the region's productive sectors than the World Bank ever had. Over the course of the decade and a half prior to the creation of the IDB (1947–1960), the World Bank lent Latin American countries USD 1.16 billion in loans almost entirely to finance infrastructure. During the following decade, the World Bank allocated USD 3.3 billion to the region, with the lion's share once again going to finance infrastructure. In contrast, over a similar period—from 1961 through 1969—the IDB granted USD 3.5 billion in loans in Latin America, a substantial part of which was allocated to productive sectors. As a result, the IDB quickly became the region's main multilateral bank, especially for financing its productive sectors.

In the 1970s, in spite of an exponential increase of MDB loans to the region, they lost share in the external financing of Latin American countries. MDB loans represented 40% of foreign financing granted the public sector during the period 1966–70 and more than 15% of the total foreign funding, but by the end of the 1970s, multilateral financing did not exceed 5% of the total external financing received by the public and private sectors of the region. On the contrary, the participation of international private banks increased from 10% of Latin American external financing at the beginning of the decade, to 56% in 1980.[9]

As for the sector-based distribution, in the first five years of the IDB's operation, economic infrastructure received less funding than productive and social sectors. However, this trend in the bank's lending distribution soon reverted, as industrial and social sectors gradually lost significance. The infrastructure sector's share of IDB loans increased to such an extent that averaged approximately 45% of its total portfolio between 1961 and 1980.[10] Therefore, the initial differentiation between the World Bank and the IDB with its policy-based lending, then called "sector lending," tended to disappear in the 1970s. The IDB, which had been created to finance sectors that were not prioritized by the World Bank, quickly emulated the MDB's credit policy.

In its early years, the IDB was characterized by its firm intention to contribute to the progress of countries' national development plans, in a context of a widespread commitment among regional governments to promote industrialization using strong intervention tools. This developmental role explains the IDB's cooperation, and the synergies it displayed, with national public institutions in that first stage of its operation. In fact, state-owned financial development institutions became important mechanisms for the IDB to channel part of its resources toward achieving the objective of

[8] IDB, Annual Reports, 1960–1965.
[9] See Griffith-Jones (1984) and Vivares (2013).
[10] These final percentages are consistent with the goals set by the IDB. Annual Reports, 1975, 1976, 1977 and, 1978.

contributing to the acceleration of the region's economic growth and social and economic development.

4. The IDB funding

The IDB's capital structure was divided into two components: paid-in capital from member countries and callable or guarantee capital. Like in the case of other MDBs and RDBs, this structure allowed the IDB to raise money in capital markets while sustaining strong ratings (and low interest rates), and eliminated the need for its member countries to pay in cash for their share in the institution's capital. However, the IDB's funding structure changed over time.

The initial authorized capital was USD 850 million: USD 400 million in paid-in capital and USD 450 in callable capital. Paid-in capital was supposed to be paid in three annual and consecutive installments. The United State was the main donor with 40% of the ordinary capital of the Bank, followed by Argentina and Brazil, with 12.44% each.

In order to make loans, the IDB could use the paid-in capital, retained earnings and funds raised in international markets. It played an active role as a borrower in capital markets with a growing participation. At the beginning of the 1970s, while the IDB's ordinary capital was over USD 4 billion, its total net borrowing was USD 1.1 billion, with more than USD 100 million raised per year (IDB, Annual Report, 1972).

In the following decades, the share of the U.S. was reduced to 32% of ordinary capital (and also paid-in capital), but it remained the main donor followed by Argentina and Brazil. Although ordinary capital increased considerably, and non-regional countries became members,[11] the paid-in capital to callable capital ratio declined. At the beginning of the 1980s, paid-in capital was barely 10% of the total ordinary capital. However, the volume of callable capital was crucial to the IDB's access to capital markets and its AAA-debt rating granted by the three largest U.S. rating agencies. In fact, in the 1980s, borrowing in capital markets became the main source of the IDB's funding. The debt-to-equity ratio, which exceeded 100% at the beginning of the decade, was near 300% at the start of the 1990s.

This funding structure was underscored in the following decades. By the end of the 1990s, the ratio of paid-in to callable capital was already under 5% and has remained at that level up to the present day. In contrast, the debt-to-equity ratio averaged 320% from 1995 to 2015. The IDB's dependence on borrowed funds to carry out its lending strategy increased over time, making it critical that it meet the all necessary conditions in order to hold onto its AAA-rating from the rating agencies.

Table 1 – IDB funding structure

[11] During the 1970s, 14 European countries plus Japan and Israel became members of the IDB.

Year	Paid-in to callable capital	Debt to equity (1)	Year	Paid-in to callable capital	Debt to equity (1)
1983	11.32%	94.66%	2000	4.79%	359.86%
1984	16.55%	89.29%	2001	4.63%	342.01%
1985	10.77%	140.26%	2002	4.49%	355.78%
1986	10.12%	247.45%	2003	4.49%	307.15%
1987	10.12%	288.43%	2004	4.49%	263.82%
1988	9.53%	260.53%	2005	4.49%	249.13%
1989	8.26%	254.62%	2006	4.49%	235.60%
1990	8.26%	275.41%	2007	4.49%	243.47%
1991	8.26%	291.75%	2008	4.49%	272.92%
1992	8.31%	294.51%	2009	4.49%	320.18%
1993	7.43%	307.09%	2010	4.49%	329.47%
1994	7.42%	327.35%	2011	4.49%	351.81%
1995	6.21%	316.62%	2012	4.31%	345.86%
1996	6.21%	309.55%	2013	4.31%	312.30%
1997	5.80%	320.34%	2014	4.31%	348.58%
1998	5.53%	394.48%	2015	4.13%	340.10%
1999	4.98%	446.62%			

Source: Authors based on IDB – Financial Statements (1984–2015)

(1) Equity includes paid-in capital plus retained earnings and reserves

5. The IDB's trajectory from the 1980s to 2010

5.1 In the 1980s: the transition leading up to the Washington consensus

In the early 1980s, the sudden stop in private capital inflows to Latin American countries and the resulting debt crises marked the beginning of a transition period in favor of neoliberal economic policies. In this new context, government intervention in the economy, state ownership of companies and banks, and the policy of import-substitution industrialization came under fire. The IDB's credit policy would also suffer a profound transformation, shifting away from the prioritization of economic and social infrastructure projects and industrial activities, moving toward the promotion of programs linked to the implementation of structural reforms.

The program of structural reforms was schematized by the so-called Washington Consensus at the end of the 1980s and consisted of: fiscal discipline and changing priorities in public spending; trade, financial and foreign investment liberalization; reform in tax regimes; privatization of state-owned enterprises and deregulation in goods and labor markets.[12]

During the 1970s, large amounts of foreign private financing for developing countries at extremely low interest rates and without conditionalities reduced the importance of international financial institutions (IFI) in those countries. In contrast, at the beginning

[12] See Williamson (1990).

of the 1980s, with developing countries in need of foreign financing and restricted access to private capital markets, the ability of the MDBs and the International Monetary Fund (IMF) to impose policies and reforms increased considerably. For the U.S., it was the perfect environment to impose market-friendly policies in developing countries using IFIs as a key instrument. After some initial hesitation, the U.S. government definitively assigned the World Bank and the IDB a leading role in overseeing the changes in Latin America's development model.[13]

This new conception about IFIs was clearly connected to the crisis of Keynesian-type policies that dominated the scene during the post-World War II period, and the rebirth of the neoclassical orthodox economic ideas that spread all over the world from the oil crisis at the beginning of the 1970s. In this context, developed countries became more cautious about IFIs. On the one side, revitalized fiscal austerity implied that donors countries should became more sensible towards their monetary contributions to lending institutions and more demanding with the result of their credit lines. On the other side, trust in market forces fueled the idea that multilateral banks should withdraw from some activities to leave them to the private sector and help generate private sources of financing. In short, a new idea spread among developed countries: in a context of budgetary constraints, the scarce resources of the MDBs should be used to assist developing countries in applying structural reforms. The U.S. championed for this idea. From the new conception, lending should be allocated into countries with sound economic policies.

The transformation did not happen at the same pace in all lending institutions, though. The IMF became immediately the key IFI to deal with the debt crisis in Latin American countries. The World Bank, as an institution where donor countries have majority and great influence on the lending decisions, began almost immediately to tie its credits to the implementation of specific market-friendly economic policies by borrowing countries, in coordination with the IMF.

The U.S. government's concern was how to generate selectivity to favoring those countries with solid macroeconomic foundations, and conditionality to tie loans to the implementation of market-friendly economic policies and privatization of state-owned companies. For the IDB, which had allocated the majority of its loans to specific projects without conditionalities, this meant reassessing and reevaluating its credit policy and guidelines. But that transformation was not going to be that easy. Given that although the U.S. had veto power in some key IDB resolutions, borrower members held a majority in the decision-making process and were suffering the impossibility to access to private banks' loans.

In this context, during the first half of the 1980s, the IDB fluctuated between the objective of completing projects already underway and maintaining support for industrial sectors seriously compromised by the crisis. At the time, it still had no intention of becoming an instrument to impose structural reforms.

In 1985, with James Baker as Treasury Secretary, U.S. pressure on the IDB lending policy intensified. At the end of 1985, Baker proposed a plan to deal with the debt crisis in the form of the so-called Baker Plan.[14] The plan called on MDBs to become

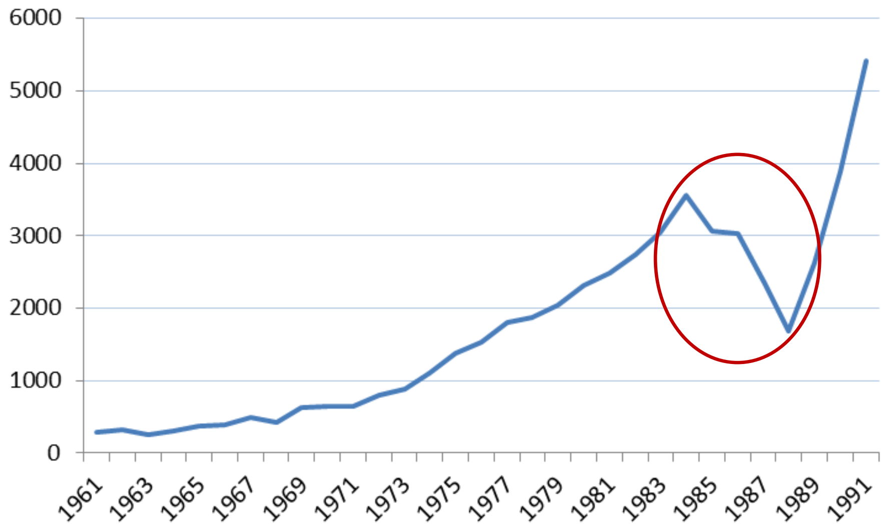
[13] See Stalling (2014), Babb (2009) and Bacha (1987).
[14] For more information on the Baker Plan, see Ocampo et al (2014).

promoters of market-friendly policies in developing countries and to establish stricter terms of conditionality in order to refuse to give loans when established conditions were not met.[15] MDBs would need to develop “country strategies” consistent with structural reforms in order to guide the lending policy for each country.

An essential element for a loan’s conditionality to be successful was coordination among IFIs, so that borrowers would not be able to speculate on different kinds of requirements. This coordination started working very well between the IMF and the World Bank. The World Bank quickly adopted a stance in which it would wait until a borrower had reached an agreement with the IMF before engaging in a program with a country. The IMF, as well, expanded its conditionality menu, including structural reforms, and privatization, which were specific World Bank requirements up to that moment. The whole plan implied that regional development banks, like the IDB, had to coordinate their actions in the same way with the World Bank. Also, according to the U.S. government’s view, some reforms needed to occur in the internal organization of the IDB before it was ready to assume the new role expected of the institution.

In that context, negotiations for the IDB’s Seventh General Capital Increase and Replenishment, which had begun in 1986, hit a roadblock, reflecting the increasing U.S. pressure on the institution. For the IDB, a period of financial strangulation began. For the first time since its creation, total loans decreased, as seen in Figure 1.

Figure 1 – IDB annual loans approvals (1961–1991)
In millions of USD



Source: Authors based on IDB annual reports (1961–1991)

According to Babb (2009), the U.S. offered an important financing package to the IDB in exchange for a number of reforms in the institution’s policies and governing structure, in line with the Baker’s plan requirements. The IDB initially opposed the reforms. As a consequence, it ran short of resources and abruptly reduced its loans, but

[15] See Stallings (2014) and Babb (2009).

soon the institution started to give into the pressure. Finally, by the end of 1988, after the resignation of its president Ortiz Mena (succeeded by Enrique Iglesias), the IDB embarked on an internal restructuring, and donor countries approved a USD 26.5 billion increase in the IDB's resources. The IDB agreed to ensure that all loans would 'support policy reform and self-sustaining growth,' and committed to conduct its lending under the supervision of the World Bank for two years (Babb, 2009). "From that point forward, the IDB would be much more responsive to U.S.-led policy initiatives and relations between the Treasury and the IDB management [were] more cordial."[16]

In line with Babb's analysis, after dropping for four years in a row, IDB's total annual loans recovered in 1989 and reached a new historical high in 1990. As an illustrative element of the new role of the IDB in the region, an area of macroeconomic policies was created to carry on the political dialogue with the governments of borrowing countries.

Although the Baker Plan finally failed to fully resolve the problem of Latin American countries' debt crisis, the statement contained in Baker's program about the new role of international organizations definitively impacted the IDB due to U.S. pressure exerted on the institution. After the IDB's 1987–88 crisis, the institution focused on promoting structural reforms in Latin American countries, working in tandem with the IMF and the World Bank, in particular. Therefore, by the end of the 1980s, MDBs (including the IDB) and the IMF were seen as key institutions for the new consensus handed down from Washington to the world.

While the IDB's original mandate, which consisted of boosting economic development, was not modified, the mainstream interpretation of the best policies to achieve that goal did change. According to mainstream views, market-oriented policies and structural reforms would enhance growth in developing countries mainly through improved resource allocation. The Office of Chief Economist of the IDB described this shift in development policies as follow: "The development model based on protection of domestic markets and state intervention was replaced by a set of policies overwhelmingly oriented toward the goal of improving efficiency, facilitating the working of markets and reducing the distorting effects of state intervention on economic activities."[17]

6.2 In the 1990s: promoting structural reform and dealing with its consequences

After a lost decade for the region in terms of growth and development, the 1990s was the decade of structural reforms in Latin American countries.[18] In the new context, the IDB became the main source of multilateral resources, promoting through its loans financial, economic and political reforms. While the IDB's total loans to the region totaled more than USD 70 billion during the decade, the World Bank reached almost USD 60 billion and the Development Bank of Latin America (CAF) contributed USD 23 billion. However, private international markets were by far the main source of foreign financing for the region, especially from 1993, when new issues of sovereign

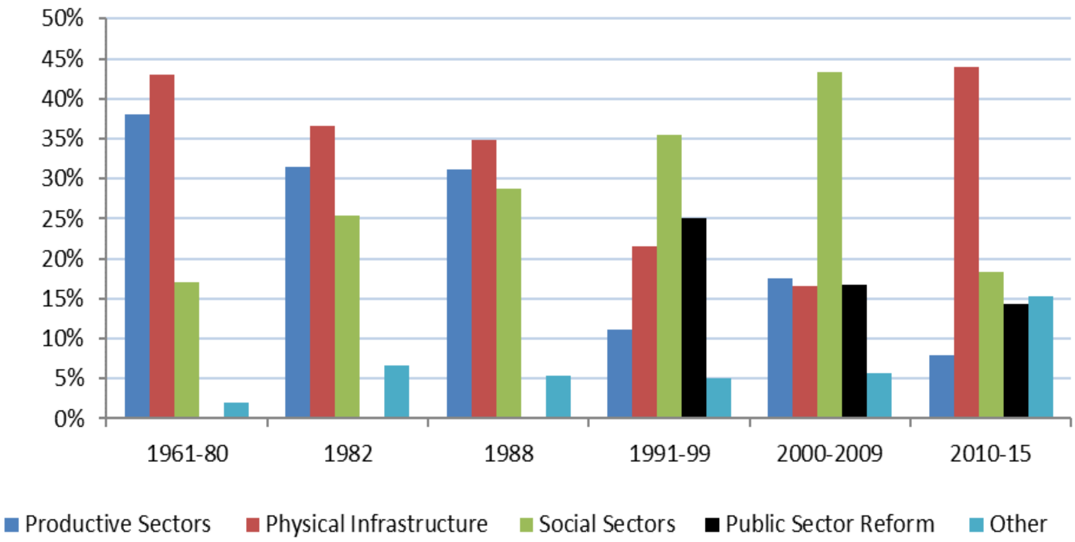
[16] Babb (2009), p. 143.
[17] Lora (2012), p. 2.
[18] Lora (2012).

bonds increased dramatically. Latin American countries issued bonds for more than USD 140 billion during the 1990s.[19]

Given the persistence of the problems generated by the debt crisis, from 1989 onward, Latin American countries started applying the Brady Plan (successor of the Baker Plan). The plan called for the conversion of debt held by commercial banks into sovereign bonds, which would then trade on secondary markets. The IDB became an agent for the implementation of the Brady solution in the region. For that purpose, Latin American countries needed to commit to making greater advances (or moving more quickly, depending on each case) to implement structural reform programs, in order to receive funds from the World Bank and the IDB to acquire U.S. Treasury bonds, which would serve as guarantee for the new Brady bonds. The IDB's commitment to this strategy was evident; in fact, the institution created a credit line for "debt reduction and debt services reduction to help borrowing countries to decrease their external public debt and debt service with commercial banks."[20]

In this context, the allocation of IDB's loans for the "Public Sector Reform"—a category that did not exist until 1990—represented more than a quarter of the total funds provided by the institution over the following decade. "Productive sectors" obtained a little more than 10% of IDB funds, while "physical infrastructure" received about 20% of total loans, accentuating their declining participation in total loans, as seen in Figure 2.

Figure 2. Sectoral distribution of IDB loans
As percentage of total loans



Source: Authors based on data from IDB's Annual Reports, several years.

The other significant element observed in Figure 2 is the increasing importance of "social sectors" in its loan portfolio. In 1994, during the Eighth Capital Increase, the Board of Governors established that funds destined to poverty reduction should be increased in order to represent no less than 40% of its total loans in the following years. This concern for poverty levels and social sectors had to do with recognition of the

[19] Titelman (2002).
[20] IDB, Annual Report, 1990, p.10.

negative consequences of the structural reforms proclaimed by the Washington Consensus and promoted by the IMF and MDBs (including, as we have said, the IDB). In its 1990 annual report, the IDB admitted: "(…) drastic fiscal adjustment, inflation, and stabilization programs have unquestionably exacerbated the problems of poverty existing at the beginning of 1990."[21]

Therefore, after inducing Latin American countries to apply structural reforms during the first half of the 1990s, the IDB increased its efforts to compensate for the effects of those policies on the most vulnerable social sectors, with credit lines that were merely palliatives. Consequently, there was an increase in the share of "social sectors" in IDB's total annual loans. However, the IDB's commitment to structural reforms remained intact. In fact, its Eighth Replenishment mandate included essentially, "the promotion of stability and economic growth by backing macroeconomic reform, anchoring improvements already undertaken, and supporting "second-generation" reform programs."[22]

In line with those policies, the IDB also assumed an active role in providing resources to restore macroeconomic equilibrium in situations of financial crisis, like the support given to Mexico and Argentina in 1995 in the middle of the Mexican currency crisis. That year, the IDB granted Mexico USD 1 billion in loans and USD 750 million to Argentina to strengthen their financial systems and financial institutions, in a nod to the two countries' pursuit of macroeconomic reform. The support for those countries was so important that it accounted for more than 20% of the total funds granted by the IDB in 1995.

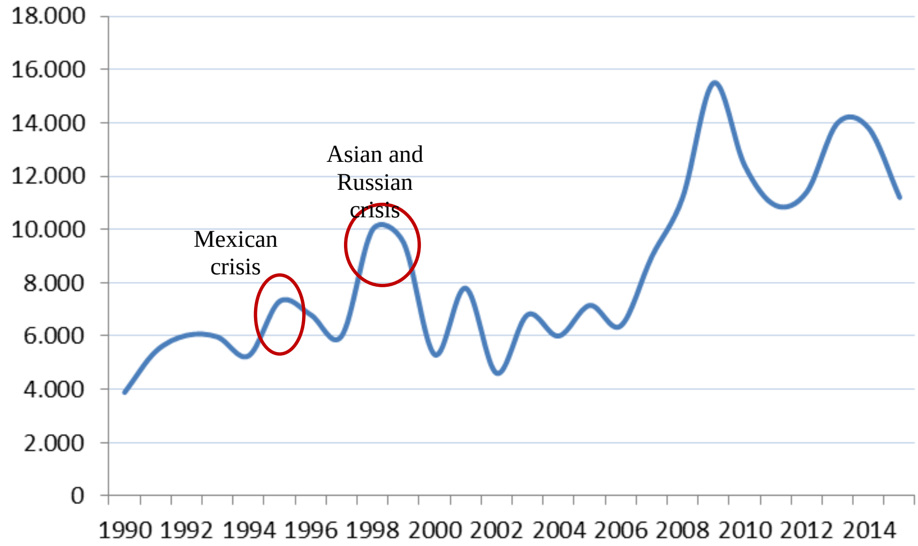
Something similar occurred in 1997 and 1998, respectively, when the Asian and the Russian crises spread to the rest of the developing countries, which suffered severe macroeconomic destabilizations in their financial systems and a decline in commodity prices, putting pressure on international reserves and reducing access to foreign financing. Once again, the IDB allocated important amounts of resources to assist large Latin American countries (specially Argentina and Brazil) to stabilize their economies, acting in coordination with IMF and World Bank. For example, a USD 2.5-billion loan was granted to Argentina to support sector adjustments and banking system safeguards. In fact, in 1998, the IDB's total loans increased more than 65% compared to the previous year and almost 40% of total loans were allocated to Argentina. In the case of Brazil, the IDB, the IMF and the World Bank, put together a package for USD 41.5 billion "to support several policy efforts in Brazil while strengthening its international reserve position."[23]

Therefore, peaks in total IDB loans during the decade occurred during and after these episodes of crisis as shown in Figure 3. The intention was to grant loans to countries that were already applying the Washington Consensus's recipes so that they could deepen the implementation of market-type structural reforms. It is no coincidence that the large economies of the region that had advanced in the implementation of structural reforms starting in the late 1980s suffered greatly from the financial crises of the decade and required large aid packages from financial international organizations, like the IDB. The opening of economies to trade and capital flows left these economies highly

[21] IDB, Annual Report, 1990, p. 7.
[22] IDB, Annual Report, 1995, p. 9.
[23] IDB, Annual Report, 1998, p. 2.

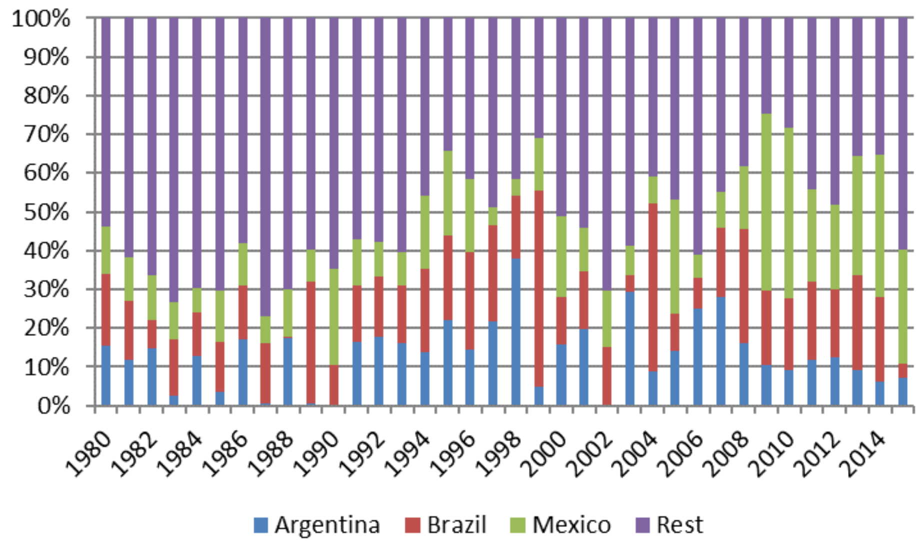
vulnerable to the volatility of short-term capital movements. Consequently, the IMF and MDBs (including the IDB) needed to intensify the injection of resources during those episodes as the only possible way to give continuity to structural reforms in the region. In fact, the distribution of IDB's loan portfolio, which had always shown a high degree of concentration in the largest countries, accentuated this tendency in the episodes of crisis in the 1990s, as shown in Figure 4.

Figure 3 – IDB annual loans approvals (1990–2015)
In millions of USD



Source: Authors based on IDB's annual reports (1990–2015).

Figure 4 – IDB's loans distribution to selected countries
In percentage of total loans



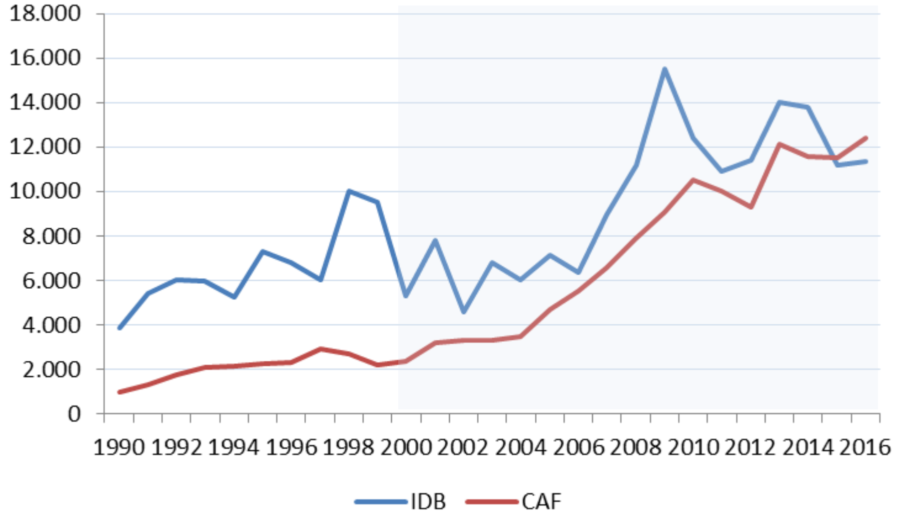
Source: Authors based on IDB's Annual Reports (1980–2015).

5.3 In the 2000s: the IDB in the new century

As shown in Figure 3, during the 2000s, in terms of sector distribution, the IDB accentuated the trend observed in the 1990s: on the one side, the share of social sectors increased, receiving almost 45% of IDB loans; on the other hand, physical infrastructure barely received 15% of IDB loans, and the share of productive sectors was practically null. In 2006, the IDB emphasized that, considering the goal established in 1994 to allocate at least 50% of operations and 40% of funds to poverty reduction, "the cumulative percentage for the period 1994–2006 reaches 46% of the number of projects and 49.3% of the volume of loans."[24]

In terms of the IDB's importance for the region, it lost its previous predominance held during the first part of the decade, until the outbreak of the international crisis in 2008. In fact, the quantitative relevance of its resources for the region between 2000 and 2006 was lower in absolute terms than at the end of the 1990s. In fact, according to Prada (2012), between 2003 and 2006—for the first time—net flows from the IDB to Latin American countries were negative, due to the prepayments to the institution, especially by the biggest countries. At the same time, CAF's role as a regional bank, especially as a source of financing for infrastructure projects and for productive sectors, grew, as seen in Figures 5 and 6.

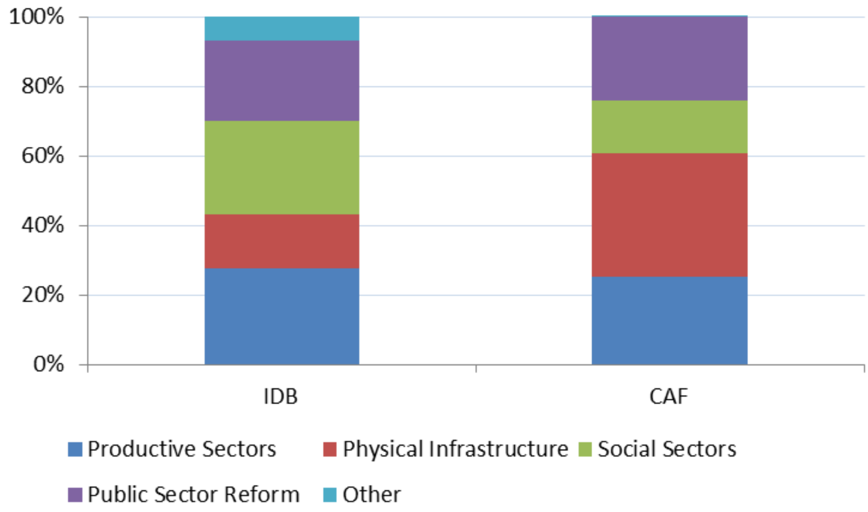
Figure 5 – IDB and CAF's total loans
In millions of USD



Source: Authors based on IDB and CAF annual reports.

Figure 6 – IDB and CAF's loans sectorial distribution
2006, in millions of USD

[24] IDB, Annual Report, 2006, p.12.



Source: Authors based on IDB and CAF annual reports

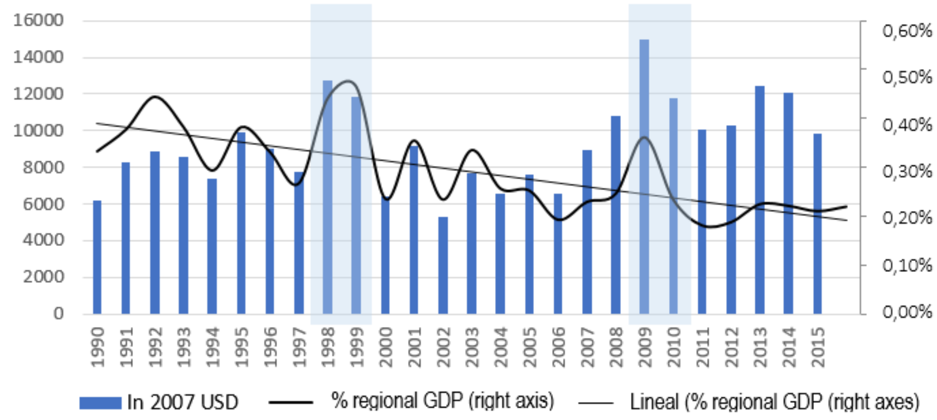
In 2008–2009, when Latin American growth decelerated considerably as result of the global crisis, the IDB increased significantly its lending to the region, thus pursuing a classical countercyclical role with few precedents. It declared, "amid these difficult conditions, in which both sovereign and private-sector borrowers found capital markets hard to access, the IDB rose to the occasion and delivered countercyclical response of unprecedented proportions."[25] In fact, both in absolute value and in terms of GDP, IDB financing to the region saw a significant increase during the global crisis, as seen in Figure 8. The IDB was not the only institution to respond in this manner, other multilateral institutions and the central banks around the world also reacted with aggressive expansive responses. In this context, the IDB created a new Liquidity Program for Growth Sustainability for USD 6 billion and increased concessionary funds available, as well as those for its Trade Finance Facilitation Program.

As Humphry and Michaelowa (2010) showed, during the two major crises of the last thirty years, in 1998 and in 2009, IDB and the World Bank lending increased considerably, and in fact, the IDB took an even more aggressive stance than the World Bank. As seen in Figure 7, annual loans measured in constant dollars hit historic peaks in 1998 and 2009. When measured in terms of the size of regional economies, IDB's total loans also showed a countercyclical a role in 1998 and 2009, but in the midst of a declining tendency from 1990 onward. In order to fulfil this countercyclical role, it increased its borrowings markedly in both periods. As Table 1 shows, its debt-to-equity ratio increased from 320% in 1997 to 446% in 1999, and rose from 243% in 2007 to 351% in 2011.

Figure 7. IDB Annual Loans

In thousands of 2007 US dollars and as a percentage of regional GDP

[25] IDB, Annual Report, 2009, p.7.



Source: Authors based on data from IDB's annual reports and the World Bank database.

The declining participation of IDB's loans in the regional GDP can be attributed, on the one hand, to the growth of private capital markets and, on the other, to developing countries' stronger balance of payments in the new century. In fact, as a result of the rise in the commodities prices, international reserves of Latin American economies increased from less than USD 200 billion at the beginning of the new century, to more than USD 800 billion by 2012. In an unprecedented episode, between 2003 and 2007, the region obtained a cumulative current account surplus of more than USD 130 billion.[26]

In terms of sector distribution, during 2009 and 2010, the IDB Board of Governors started discussing the Ninth General Capital Increase. The institutional priorities for the IDB's credit policy for the following years were established as follow: i) social policy for equity with emphasis on productive insertion of the poor, improving quality of education and promoting equity health outcomes; ii) infrastructure for competitiveness and social welfare; (iii) institutions for growth and social welfare, focused on improving lending for small business, fiscal efficiency through decentralization; (iv) competitive regional and global integration; and (v) protection of the environment, responding to climate change and ensuring food security.[27]

These new priorities shaped the sector distribution of IDB's lending policy for the period 2010–15, with greater emphasis on infrastructure to enhance competitiveness of regional economies, and associated with the intention of financing production of sustainable energy and the mitigating climate change. As shown in Figure 3, physical infrastructure represented more than 40% of the IDB's resources as of 2010, while the social sectors fell to less than 20%. It is also noticeable that the decrease in the participation of the productive sectors was accentuated, a tendency seen starting in the 1980s, receiving less than 10% of the IDB's lending between 2010 and 2015.

These new priorities of the IDB's lending policy were aligned with a development model that can be seen as a continuity of the Washington Consensus' principles, with some variants that emerged from the 2007-2008 global crisis. On the one hand, developed countries recognized the increasing weight of developing economies in the

[26] World Bank database.
[27] See IDB Annual Reports, 2009 and 2010.

global economy, and the need of financing to deal with their deficits and gaps. On the other hand, the essential market-friendly economic ideas remained untouched. In its first declaration in November of 2008, G20 members argued that "reforms will only be successful if grounded in a commitment to free market principles, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively regulated financial systems."[28]

Therefore, the IDB's lending policy during the period 2010–2015 must be interpreted in this context. The greater emphasis on financing infrastructure to improve competitiveness was related to a development model based on the benefits of free trade. But also, MDBs in general, and the IDB in particular, increased their support for infrastructure projects as an expression, at least to some extent, of the evident infrastructure gaps in developing countries and the increasing importance of those countries in the global economy.[29] Additionally, IDB's policy in recent years expressed a broader vision of development models, associated with the need to reconvert economies to environmentally sustainable development schemes; a vision that has been gaining strength in developed economies since the 2008 global crisis.[30]

6. Conclusions

This chapter has argued that the orientation of IDB's lending policies for the region has evolved over time. Although the IDB's mandate remained unchanged over more than fifty years of existence, a transition phase clearly started in the 1980s, moving away from a developmental role associated with state-led industrialization processes, to the liberalization and deregulation policies promoted in the 1990s and the pursuit of a countercyclical role in major crises episodes.

During the 1980s, a substantial transformation took place in the role of MDBs, which became key agents for the implementation of structural reforms in Latin American countries. In the case of the IMF and the World Bank, this transformation happened almost immediately when the debt crisis exploded in the region. The case of the IDB was different because of borrowing countries' larger voting power in the institution's lending decisions. However, the weakness of Latin American economies during the debt crisis and the relevance of the U.S., as the main source of funds with veto power in some IDB decisions, led to its role as an agent for the application of market-friendly policies and structural reforms programs by the end of the decade, in lieu of its active role in the financing of economic infrastructure and productive sectors during the first two decades after its creation.

Therefore, the IDB ended up aligning its actions with the Washington Consensus strategy, much like the IMF and the World Bank, in spite of the greater voting power of borrowing countries in its governance structure. The IDB's lending policy focused mainly on supporting structural reforms and, also, on fighting against poverty because

[28] G20 (2008), p. 4.

[29] "We request the regional development banks (RDBs) and the World Bank Group (collectively, multilateral development banks, or MDBs) to work jointly to prepare action plans that increase public, semi-public and private finance and improve implementation of national and regional infrastructure projects." (G20, 2010, p. 1).

[30] For example, since 2011, the G20 included fostering clean energy, green growth and sustainable development, and pursuing the fight against climate change among its main objectives in its Leaders' Declaration.

of the negative consequences of market-friendly policies and the openness of the economies (as described in the Bank's Eight General Capital Increase).

This orientation of IDB strategy remained almost unchanged until the 2008–2009 global crisis. During the financial crisis, it played an important countercyclical role and increased noticeably its total loans. While maintaining the market-friendly fundamentals promoted by the Washington Consensus in the early 1990s, the IDB lending policy has focused heavily on the development of physical infrastructure in the region since 2010, seeking to boost competitiveness to promote free trade, and to accelerate the transformation of economies toward more environmentally sustainable models.

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