

## Chapter 4

# The International Financial Institutions and the Debt Crisis

### Changing Problems and Changing Roles

#### *Original mandate*

4.1 The current role being played by the IMF and the World Bank in relation to the debt crisis cannot be understood without reference to their original terms of reference and the way these have been interpreted in practice.

4.2 The IMF's principal mandate (Article I of its Charter) related to the provision of international monetary stability. The IMF provided 'machinery for consultation and collaboration on international monetary problems'; it sought to promote greater exchange stability; and 'by the provision of *temporary* finance, to discourage resort to measures destructive of national and international prosperity' in response to payments imbalances. The World Bank, on the other hand, although initially seen as concerned with post-war reconstruction, has been concerned with long-term developmental objectives and has provided project finance for this purpose. The establishment of its soft-loan affiliate, the International Development Association, made explicit the need for finance 'in the less developed areas' which would be 'more flexible and bear less heavily on the balance of payments than those of conventional loans'. A clear distinction was seen between the roles of the Bank and the Fund.

#### *The oil shocks and the debt crisis*

4.3 The events of the early 1970s revealed the need for a different kind of financing: medium-term financing for structural balance of payments deficits. The IMF responded in a variety of ways:

- a two-year Oil Facility was set up in 1974 incorporating a Subsidy Account for concessional lending to low-income countries;
- the Extended Fund Facility (1974) provided multi-year programmes in the form of three-year credits repayable over eight to ten years;
- a Trust Fund (1976), financed out of profits from gold sales, provided concessional balance of payments loans to low-income countries;
- another relevant institutional change was the introduction of the Supplementary Financing Facility in 1979. Since the repayment periods were longer than for stand-bys, this might have been expected to be of particular help to developing countries. Further, a concessionary element was provided to low-income countries by a two-tier Subsidy Account designed to reduce the associated interest rate;
- the Compensatory Financing Facility was liberalised or extended in scope on three occasions between 1975 and 1981;
- cumulative access was enlarged to 600 per cent which has now, after the eighth quota review, been reduced to 408 per cent or 500 per cent, depending on the seriousness of balance of payments needs and the strength of the adjustment effort.

4.4 For its part, the World Bank endeavoured to step up the scale of its lending and, in 1980, introduced Structural Adjustment Lending (SAL) to provide medium-term credits.

4.5 The consequences of these actions, particularly in relation to the Fund, were substantial, quantitatively and qualitatively, but essentially short-lived. As can be seen from Table 4.1, there was an upsurge in Fund lending between 1974 and 1976, but this fell to negligible levels, and indeed turned into negative net flows, during 1977 and 1978. Qualitatively, there was a movement towards medium-term programmes and special facilities for low-income countries; but this was reversed after 1976. These diminishing attributes partly explain why the Fund was called on to play virtually no role from 1977 to 1979 in financing non-oil developing countries' deficits, which remained large. Another major reason was the large percentage of high conditionality lending—three-quarters of the total by 1980. This change was brought about by increasing the percentage of quotas that could be drawn rather than increasing the quotas themselves (thus, first credit tranche conditionality continued to apply to 25 per cent of a quota even though much larger cumulative quotas could be drawn). There was a brief relaxation of attitude to conditionality at the end of the 1970s, involving easier availability of waivers, longer programme periods and modified policy

objectives, but this proved short-lived. Those countries which were able to do so, preferred to make maximum use of commercial bank credit.

4.6 The reaction of the Fund to the second oil shock of 1979 and the resultant debt crisis (or at least the reaction of its principal members) was substantially different from its reaction to the events of 1973–74. There was, to be sure, a major increase in resources and lending; but it was primarily in relation to what was seen as a short-term liquidity crisis on the part of the major debtors. It has not been directed towards the longer-term structural problems of the countries concerned or to the particular problems of low-income countries. For its part, the World Bank increased its lending but this never exceeded planned levels, even during crisis situations, because of the constraint of remaining within sustainable lending limits. Each of these points merits some further discussion, which we undertake below.

### **The IMF and Major Commercial Bank Debtors**

#### *The IMF as lender*

4.7 As can be seen from Tables 4.1 and 4.2, there was a major increase in Fund lending to non-oil developing countries after 1980, and this was almost totally accounted for by the 25 countries with the largest external indebtedness in 1982 (other than India, Pakistan and Indonesia, all are middle-income countries).

4.8 The resources to finance this upsurge in new lending were raised in several stages. After 1979, with the help of borrowing under the Supplementary Financing Facility, a review of quotas, and further borrowing from Saudi Arabia and the industrial countries, the Fund was able to enlarge its resources under the standby and extended arrangements. Two further important decisions were taken in early 1983 to increase IMF resources. Under the Eighth General Review, aggregate quotas were increased by 47.5 per cent from SDR 61 billion to SDR 90 billion—ahead of schedule. Secondly, the General Arrangements to Borrow (GAB) were expanded and extended by the members of the Group of Ten, whereby maximum credit lines available to the Fund were increased from SDR 6.4 billion to SDR 17 billion and access extended beyond the Group to provide ‘additional financing for other countries with balance of payments problems . . . that could pose a threat to the stability of the international system’.

4.9 With these resources (and increased access limits), net commitments under agreed programmes with developing countries were raised to SDR 6.6 billion in 1980 (roughly equivalent to the total commitments over the whole period 1974–79), rising further to an average of SDR 7.3 billion in the following two years and SDR 10.6 billion in 1983 (double that of the previous year and of the five-year period 1976–80).

**Table 4.1: Bank/Fund Lending to Non-Oil Developing Countries (\$ bn.)**

	Current Account Deficits	Gross Fund Disbursements	Net Use of Fund Credit	World Bank Gross Disbursements (IDA in brackets)	Net Fund Disbursements
1973	11.3	0.4	0.1	2.2 (0.7)	2.1
1974	37.0	1.9	1.5	3.0 (1.0)	2.9
1975	46.3	2.7	2.1	3.8 (1.3)	3.1
1976	32.6	4.1	3.2	3.9 (1.3)	n.a.
1977	30.4	1.4	- 0.2	3.9 (1.1)	3.2
1978	42.3	2.3	- 0.3	4.8 (1.2)	4.2
1979	62.0	2.8	0.2	5.8 (1.4)	4.8
1980	87.7	6.0	1.5	7.0 (1.9)	5.6
1981	109.1	8.4	6.1	8.4 (2.1)	7.0
1982	82.2	8.1	7.1	9.4 (2.6)	4.5
1983	56.4	13.5	10.2		

*Note:* World Bank figures are for July/June financial year (thus, 1982/3 for 1982).

Table 4.2: Use of Fund Credit 1977-83 (\$ bn.)

	1977	1978	1979	1980	1981	1982	1983
<i>Developing Countries</i>	-0.2	-0.3	0.2	1.5	6.1	7.1	11.7
of which —major borrowers	-0.2	-0.5	-0.5	1.2	3.4	5.7	9.3
—low-income countries	-0.3	-0.2	0.2	0.6	2.1	2.7	1.8
—low-income countries excluding China and India	0.1	-	0.2	0.3	1.3	1.1	0.8
—Africa	0.1	0.3	0.4	0.5	1.6	1.2	1.4

Source: IMF, *World Economic Outlook*.

At the end of 1983, 43 countries had arrangements with the Fund involving a total amounting to SDR 22.9 billion. Of these, 20 countries—including nine in Latin America—with arrangements totalling SDR 14 billion, had undertaken at least one debt rescheduling over the period 1981–83. In terms of the current account deficit (admittedly much reduced as a result of IMF supervised programmes) the Fund financed 20 per cent in 1983 compared with 6 per cent in 1981 and 3 per cent over the period 1976–80. For nine Latin American countries with Fund programmes, the level of Fund support rose from less than 1 per cent of the current account deficit in 1981 to more than 50 per cent in 1983.

4.10 Two further features should be recorded regarding the big increase in Fund lending to meet the needs of the major debtors. First, while low conditionality lending increased (to a record SDR 3.4 billion in 1983), the proportion fell sharply from about a half of disbursements in the late 1970s (and 80 per cent in 1976) to a little over a quarter in 1983. Second, the new lending was dominated by one-year standby loans. The EFFs, symbol of the Fund's attempt to adapt its approach towards longer-term and more structurally oriented programmes, now account for a much lower proportion of Fund arrangements than earlier—only 10 out of 43 developing country programmes in 1983 and only 4 out of 37 in mid-1984. Thus we can see a marked change in response to developing country needs since the first oil shock.

#### *The IMF as catalyst*

4.11 Apart from the absolute amounts of finance provided by the IMF, it has played a role quantitatively even more important than is indicated by the scale of its own lending. It has extracted 'involuntary' lending from banks, making it conditional before its own resources were committed in the period ahead. Taking the four countries Argentina, Brazil, Mexico and Yugoslavia, the effect of this joint approach has been that the \$12 billion provided by the IMF over a three-year period was matched by a rescheduling, over a 7–8 year period, of some \$45 billion of bank loan repayments together with \$10 billion in new medium- to long-term loans.

4.12 This degree of involvement in the case of the major debtors has made the Fund central to the successful resolution of debt rescheduling problems. As a corollary of increased Fund involvement in debt rescheduling cases, creditors have made almost all debt rescheduling arrangements, including the disbursement of new money, conditional upon compliance with performance criteria under arrangements with the Fund (the same applies also to official creditors under the Paris Club, but here the Fund's catalytic role is less in evidence). For a debtor country, therefore, non-compliance means the suspension not

only of Fund lending but also of lending by the commercial banks and other creditors.

### *Conditions and performance criteria*

4.13 The main feature of IMF conditionality as applied to the major debtors is the emphasis on demand management and a programme of monetary and fiscal measures which can be monitored within the short-term programmes consistent with standby loans. The principal instrument for achieving the objectives envisaged in these programmes has been a sharp reduction in public sector deficits; for example, a reduction in the case of Mexico from 16.5 per cent of GDP in 1982 to 3.5 per cent of GDP in 1983, and in the case of Brazil from 16.9 per cent of GDP in 1982 to 4 per cent of GDP in 1983.

4.14 The main achievement of debtor adjustment policies, as we have described in Chapter 1, was to produce a remarkable swing in their trade balance. If we take ten countries with the largest bank debt<sup>1</sup> and which have recently experienced bank debt reschedulings, their merchandise trade has achieved an estimated \$25–30 billion surplus in 1983 from a deficit of \$45 billion in 1981. This swing was largely accomplished by a reduction in imports; in 1983 imports were almost halved compared to the level reached in 1981.

4.15 There has been considerable criticism of the damaging consequences for development of this type and scale of adjustment. We shall briefly reiterate only two major points here. The first relates to the very high economic and social costs in terms of output, employment and personal incomes. The implications for GDP growth were summarised in Chapter 1. In terms of employment, in Peru, for example, about 900,000 jobs have been lost since 1980, pushing the level of those without a full-time job to an estimated 60 per cent of the 6 million work-force. Industrial employment fell by 8½ per cent during October 1983 in Brazil. Real wages are reported to have fallen by about 25 per cent in Brazil during 1983, as envisaged in the IMF programme. In Yugoslavia, where an IMF programme was pursued from May 1979 to the end of 1983, real wages showed a decline of 15–20 per cent between 1979 and mid-1983.

4.16 The second criticism is that short-term adjustment programmes are not directed to the need for measures to increase the output of tradeable goods and services—exports and import substitutes. Indeed, they may hinder necessary structural changes inasmuch as they inhibit new investment. In any case, new investments may well be import-

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1. These are: Mexico, Brazil, Venezuela, Argentina, Chile, Yugoslavia, Nigeria, Peru, Ecuador and Turkey.

intensive, requiring increased, rather than reduced, trade deficits in the short term. The main mechanism used by the Fund to encourage improvements on the supply side is the use of exchange-rate devaluation. Between 1981 and mid-1983 the real exchange rate of Mexico depreciated by one-third; of Brazil by one-sixth; of Argentina by two-fifths; of Yugoslavia by three-fifths; of Ecuador by two-fifths. Results in terms of growth are meagre so far, which is not surprising since there is a longer time-lag between price signals and resource allocation than between income changes and demand for goods. There are inevitable gestation periods between investment decisions and production and marketing of production, and these lags are more evident where export markets have to be established. This underlines the need for adjustment to be seen in a longer time-frame.

### **The IMF and the Low-income Countries**

4.17 The experience of seriously indebted low-income countries in relation to the Fund is in general much less satisfactory than for other developing countries, both in respect of the quantity and quality of lending.

4.18 As regards quantity, it can be seen from Table 4.2 that, while there has been an increase in the total use of Fund credit by low-income countries from the very low levels of the late 1970s, a large part of the increase is accounted for by China and India, particularly the latter, and the increase is small in relation to the overall increase in developing country borrowing from the Fund. One major problem is the limitation on access. Even where access is adequate, high interest rates and the short repayment periods on Fund loans are a deterrent to potential borrowers (and also to the Fund which needs to be persuaded that repayment is likely). The cut-back in special IMF provisions for low-income countries—the Subsidy Account and the Trust Fund—are a major impediment. Moreover, the Fund performs virtually no catalytic role; as explained in Chapter 3, it does not actively encourage new official lending and may inadvertently turn off sources of export credit.

4.19 IMF programmes present problems for the low-income countries for several related reasons. First, a traditional short-term Fund programme which calls for immediate cuts in expenditure leading to cuts in imports presents particular difficulties for these countries. Levels of incomes are initially lower and imports have usually been compressed to the minimum already. And, as we have seen, many African countries have had experience of long periods of falling per capita incomes and falling imports. Second, the time period required for achieving structural adjustment is likely to be long: this arises from the fact that low-income countries tend to have much less diversified production structures, so that a change in relative prices brings about a reallocation of resources

more slowly. The existence of large non-monetised sectors also tends to limit the role of the price mechanism.

4.20 Yet a review of the Fund programmes in the context of Sub-Saharan Africa suggests that there is an even greater predominance of short-term, one-year, standby arrangements rather than three-year EFF loans, as compared with arrangements for middle-income countries.<sup>2</sup> While the Fund does, on occasion, operate in terms of a medium-term framework, even in formulating standby arrangements, the failure to conclude straight medium-term arrangements suggests that the performance criteria are formulated unduly in terms of variables related to short-term improvements, for example, variables related to demand management rather than to supply-side measures.

4.21 Taken as a group, low-income countries, especially in Africa, have left a sizeable trail of failed and aborted Fund programmes. In addition to the inherent difficulties in achieving meaningful adjustment with short-term deflationary programmes, most low-income countries are more vulnerable to exogenous shocks than are other countries. They are also subject to a greater seasonality in the tempo of their economic activity. Essentially, the requirements of these countries are for a higher proportion of low conditionality loans, particularly under the CFF which offsets external shocks; and for more medium-term loans under which performance targets are monitored less inflexibly and with more attention to possible social and political consequences.

### **The World Bank and the Debt Crisis**

4.22 As we have pointed out above, the World Bank has so far made only a modest contribution to the balance of payments financing of developing countries. Out of an estimated gross lending commitment of \$14.5 billion in 1983 (excluding the IFC), the net transfer was only \$4.5 billion (\$11 billion and \$2 billion respectively for the IBRD alone, i.e. excluding IDA). In the case of low-income Africa, net transfers from the Bank have steadily declined since 1978 and have been negative for the last two years (the negative transfer was \$42.6 million in 1982). In Zambia, to take an extreme case, transfers have been negative since 1979.

4.23 The Bank's role has been inhibited so far by two constraints. First, it is being held back from expanding its lending activities by a combination of its restricted capital base, its capital-lending ratio (a very conservative one-to-one) and its cautious policy of remaining

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2. In mid-1984, 19 out of the Fund's 37 developing country programmes were with Sub-Saharan Africa and only one (Malawi) was an extended arrangement.

within its sustainable lending limit.<sup>3</sup> Second, the overwhelming emphasis on project lending imposes serious limitations on the absorptive capacity of many recipients. When output and consumption are being cut back as a result of forced balance of payments adjustment, it is difficult for governments to maintain the momentum of new projects. The Bank has evolved two mechanisms to help it play a larger role: SALs and co-financing.

### *Structural adjustment loans*

4.24 Structural adjustment lending was introduced by the Bank in early 1980 with the objective of providing quick disbursing finance to support measures aimed at strengthening countries' balance of payments without severely constraining demand in a manner that sets back economic and social development. The loans are designed to assist governments to adopt policy and institutional reforms intended to improve the efficiency of resource use, thereby ensuring a more sustainable balance of payments and acting as a catalyst for the inflow of other external capital to help ease the balance of payments situation. Adjustment is anticipated over a period of five to ten years. The loans themselves are for disbursement within 12 to 18 months, but the Bank normally expects to undertake a succession of such loans over a 4-5 year period.

4.25 While the idea is attractive, the quantitative significance of SALs has so far been very small. Loan commitments in 1983 amounted to \$1.5 billion and disbursements were considerably smaller. Moreover, there is a low ceiling on finance available for programme lending: 10 per cent of Bank lending and no more than 30 per cent of total lending for any one country. SALs also compete with other uses of the Bank's resources, and do not represent any net addition to total lending.

### *Co-financing*

4.26 A second contribution on the part of the Bank is the encouragement of commercial bank lending to developing countries by means of co-financing. The rationale behind co-financing is that it provides the commercial banks with greater security because borrowers are less likely to default on a project in which the Bank is involved. To date, the scheme has had limited success in attracting commercial funds. Co-financing amounts to only 1 or 2 per cent of all commercial bank lending to developing countries. Moreover, it is questionable how much

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3. Under the Bank's Articles, disbursements cannot exceed capital plus reserves. The 'sustainable lending limit' is that level of commitments that can be sustained indefinitely without requiring another capital increase. The limit varies and can be exceeded temporarily, but the commitment rate must then be reduced so that subsequent disbursements do not exceed capital plus reserves.

of the private funds are, in fact, new money which would not have been forthcoming otherwise.

## **A Future Role for the Institutions**

### *A new mandate*

4.27 It has been argued above that the IMF's role cannot simply be evaluated in quantitative terms, though the amount of resources is clearly very important. What is primarily lacking at present is adequate finance for medium-term structural adjustment lending, a deficiency related to developing countries in general but relevant to low-income countries in particular. The vehicle for this type of lending is already available in the Extended Fund Facility.

4.28 Were the IMF to move in this direction, it would mean increased overlap with the structural adjustment lending activities of the World Bank. There are important issues of policy and procedure in this area which will not be pursued here; they were covered in depth in the Helleiner Report, *Towards a New Bretton Woods*.<sup>4</sup> But there are two specific practical implications which should be underlined. First, if there is to be a consistent approach to structural adjustment there will need to be a coordinated approach by the two institutions (together with bilateral donors and credit agencies, and the recipient governments). This could eventually lead to a merged lending body. Second, in many cases, where the Bank plays the dominant role in coordinating external development finance, the Bank rather than the Fund should assume the lead role in any adjustment package, and its conditionality, rather than the Fund's, should be predominant. This in turn calls for additional Bank resources particularly for structural adjustment lending.

4.29 The other major element in a revised approach to external financing by the Fund would be recognition of the greater need for low conditionality compensatory financing to help developing countries withstand externally-induced instability. The case for an enlarged CFF rests on the following grounds: first, the particular vulnerability to external shocks of many low-income countries dependent on only one or two primary commodity exports and the absence at present of appropriate facilities on an adequate scale; second, the absence of any other satisfactory international arrangements to help developing countries deal with earnings instability; third, the desirability of incorporating interest rate fluctuations, together with export earnings, and import prices (at least for essential items), as variable elements which can be a basis of CFF eligibility; fourth, the inappropriateness of

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4. Commonwealth Secretariat, *Towards a New Bretton Woods: Challenges for the World Financial and Trading System*, Report by a Commonwealth Study Group, July 1983.

conditionality and access limits for dealing with external shocks which are not permanent but reversible.

4.30 It is also necessary to stress that low-income countries find it difficult to have access to Fund facilities because of the high cost of its borrowing. A reactivation of the Interest Subsidy Account and/or the Trust Fund might therefore be considered.

### *Resources of the Fund*

4.31 The required level of the Fund's resources depends in part on the extent to which its role remains the traditional one or is adapted along the lines sketched out above. It also depends on the extent to which the Fund's own analysis of the debt crisis is correct, namely, that existing major debtors require less external borrowing and are restored to a position where market borrowing becomes easier. If, however, their position does not improve in the medium term—as our analysis in Chapter 5 leads us to believe—they will have to roll over their loans and this will add substantially to resource requirements.

4.32 Rough calculations have been made on what could happen in a scenario in which the debt crisis will not be quickly resolved and in which the major borrowers will require programmes in place for the next three years or so, and will need continuing support at least over this period, if not longer. To provide further loans up to the present access limits would call for around SDR 15 billion over the next three years (SDR 19 billion on higher access limits). In addition, there are several other major debtors who are currently rescheduling and may well elect to make use of Fund programmes. This could involve calls on Fund lending of up to SDR 10–12 billion. These are, it should be stressed, notional figures and could in practice be substantially greater if countries with large quotas seek assistance, or substantially less if loans are not actually sought or if lending is constrained well within quota limits. We have, further, made out a case above for an enlargement of CFF low-conditionality support. Even if the same level of low conditionality support were provided as during 1981–83, the amount required could be an additional SDR 7 billion over the three-year period 1984–86. It is, therefore, not too difficult to envisage circumstances in which the Fund could face a demand on its resources of the order of some SDR 34–40 billion over the period 1984–86, and the demand could be much larger if low conditionality lending was substantially enlarged.

4.33 Looking now at the supply of finance, the Fund estimates that the Eighth Quota increase of around SDR 30 billion will provide an addition to useable resources of about SDR 15 billion from January 1984 and taken together with GAB enlargement will almost double the

size of the IMF's resources. However, since access to the GAB is in practice severely limited by special criteria, GAB resources cannot be considered as a normal addition to the Fund's resources. Even allowing for repurchases under the existing arrangements which could amount to about SDR 10 billion over the three-year period, the Fund faces a short-fall of resources of some SDR 9–15 billion over the three-year period without allowing for a significantly increased CFF. Moreover, our analysis of the longer period to 1990, in Chapter 5, suggests that on most realistic assumptions there will be a call on the IMF for the rest of the decade for resources at least as large in real terms as in 1983.

### *The role of the World Bank*

4.34 Consideration is at present being given by the Bank to the different ways in which it could play a more central role in developing countries in the light of the debt crisis, the decline in commercial lending and the particular problems of low-income countries, especially in Africa. A set of different instruments would be necessary to meet different objectives in the main groups of clients: the major debtors; low-income Sub-Saharan Africa; other low-income countries.

4.35 The Bank's effectiveness in low-income countries depends in large measure on its success in obtaining supplementary financing for IDA, at least to maintain in real terms the volume of its lending. Without adequate IDA resources, the Bank will not only be forced to make a relatively smaller contribution to seriously indebted low-income countries but will be unable to continue its valuable preventive role, which helps to keep the major Asian aid recipients from acquiring serious debt-servicing problems. Moreover, it is only with adequate resources to back it up that the Bank will be able to take a central part in formulating programmes, influencing and coordinating donors and creating a medium- to long-term perspective in joint operations with the IMF.

4.36 If the Bank is to perform this central role in medium-term structural adjustment in low-income countries and elsewhere, it will need a substantially higher percentage of resources for general programme lending. An immediate step along this road would be a significantly increased fraction of World Bank lending available for SALs, within the context of larger Bank lending in general.

4.37 Where the Bank's project orientation would be valuable is in maximising private flows not otherwise forthcoming. It is primarily in this way that the Bank will assist the major debtors as well as those not already considered creditworthy. This could be achieved through a combination of:

- (i) a more flexible and larger co-financing scheme. Bankers argue that co-financing could be raised to much higher levels. The principle of cross-default should be made more explicit (linking default to private creditors with new Bank loans) and procedures made faster;
- (ii) use of the scarcely invoked clause in the Bank's charter which permits it to offer loan guarantees;
- (iii) continuing expansion of the International Finance Corporation. The IFC's resources are to be increased from \$1.9 billion in the period 1979-84 to \$6.4 billion over 1985-89 to permit substantially increased investment, mainly in equity form;
- (iv) a World Bank banking subsidiary raising commercial finance and jointly participating with commercial lenders in lending to developing countries.

### *Regional development banks*

4.38 In many respects the comments applied to the World Bank are relevant to regional banks too. However, they enjoy certain advantages over the World Bank: they have a greater knowledge of their respective areas and the developing countries themselves play a relatively larger role in their operations and decision-making. And where the role of the World Bank and/or the IMF becomes too dominant, the regional banks can provide an independent source of advice as well as finance. Moreover, they have in general managed to speed up commitments and disbursements in order to make an effective contribution when it has been most needed. In 1983, the three regional development banks made a net transfer of \$2.5 billion from loan disbursements of \$3 billion and commitments of \$4.8 billion. Except on a small scale by the Asian Development Bank, there is no programme lending and, as with the World Bank, this represents a significant limitation on the role of the banks in the present context. They are also severely constrained financially in their ability to promote soft loan assistance through IDA-type facilities and equity financing. If these constraints were to be lifted the three regional banks could help to promote a better balanced range of multilateral financing.