

QUESTIONS & ANSWERS ABOUT THE WORLD BANK'S LENDING

The World Bank's Articles of Agreement establish the Bank as a financial institution whose purpose is to assist the reconstruction and development of borrowing countries, reduce poverty, promote foreign investment and international trade, and promote the maintenance of balance of payments by providing loans and credits. This toolkit will describe what types of loans and guarantees the Bank makes.

I. Where Does the Bank Get the Money to Lend?

In order to have access to financial resources with which to lend, the World Bank has a capital base that is comprised of the pledges, or shares, of its member countries. Countries only pay a portion of their share, however, which is referred to as "paid in" capital. The unpaid portion of each country's share is referred to as "callable capital", which is more or less a reserve fund in the event that the Bank's creditors are unable to pay. Because this has never happened, the callable capital ensures that the Bank's credit rating is impeccable. Moreover, the Bank has made a profit every year since 1947. Thus it is able to borrow at incredibly favorable rates on the international capital markets, and to make loans to its borrowing countries at below the market rate. Its profits are used to support lending through IDA (International Development Agency).¹

II. What Types of Loans Are Made?²

The World Bank is currently lending between \$25 and \$30 billion per year to developing countries, through IBRD and IDA.

The loans are made for several different types of operations:

A. Structural Adjustment Loans (SALs)

These are program or policy-based loans that restructure entire country economies to conform with free-market, neoliberal macroeconomic policy. SALs are rapidly disbursing loans that have strict conditions to induce countries to undertake a series of structural reforms that are intended to stabilize the economy over the long term. These typically include measures to cut state spending (often including cuts in social services), devalue local currency, privatize government enterprises, promote exports to earn foreign exchange, eliminate trade barriers on imports, eliminate subsidies (e.g. in agriculture, basic grains, health care etc.), deregulate labor markets, and raise interest rates to curb inflation. Structural adjustment lending is done in close coordination with the International Monetary Fund (IMF). The Bank and IMF, together with the country, will set terms and objectives in a Policy Framework Paper, which is in most cases a three-year plan. If the government agrees, the Policy Framework Paper can be made publicly available on the World Bank's website (<http://www.worldbank.org>) and the IMF website (<http://www.imf.org>).

B. Sector Adjustment Loans (SECALS)

These loans are made to restructure specific sectors of the country's economy. Sector loans are made primarily to implement structural adjustment, and include a range

of policy approaches, for example promoting changes in legislation and regulations that lead to privatization of state-owned industries and public sector reform. Typical sector loans are found in agriculture, energy, telecommunications, and transportation.

During 1999, the Bank's lending for structural adjustment and sector adjustment rose to 58% of total lending. (See chart 2.)

C. Investment Loans

Investment loans are intended "to contribute to poverty reduction, and sustainable economic growth."³

SPECIFIC INVESTMENT LOAN: These loans are for projects that create or maintain productive assets, including infrastructure (e.g. dams, highways, ports and railways, power plants), agriculture production, mining, forestry, water supply and sanitation, and social sector development (e.g. education, health, population and nutrition).

SECTOR INVESTMENT LOAN: These loans are made to bring a specific economic sector in line with economic priorities, for example bringing about a balance between public sector expenditures in new investments and rehabilitation or maintenance of existing investments.

D. Technical Assistance Loans (TALs)

These loans are intended to help build capacity of government agencies to carry out sector or economy wide investment policies or strategies. They can a) help governments reform economic sectors; b) assist with the development or implementation of new regulatory framework investments; or c) build government capacity to manage the public sector. TALs are made through specific institutional strengthening loans, within loans for projects, or through grants via the Institutional Development Fund, which annually allocates \$25 million in grants for capacity building for governments. These grants are not tied to specific Bank operations.

E. Learning and Innovation Loans (LILs)

These are new, relatively small loans (less than \$5 million) that allow the Bank to build on local initiatives or social assessments, and work with local agencies or other donors, emphasizing participation and partnerships. Bank Management, rather than the Board of Executive Directors, approve LILs.

F. Adaptable Program Loans (APLs)

These loans are designed to provide for funding of long-term development programs through a series of operations. Succeeding operations are committed to on the basis of satisfactory performance on agreed upon benchmarks, indicators, periodic reviews, and the evaluation of implementation progress and emerging needs. Authority for approval of subsequent APLs is with Bank Management, subject to oversight and review by the Board of Executive Directors.

G. Emergency Reconstruction Loans

The Bank's Operational Policy 8.50 states that "A country may request assistance from the Bank when it is struck by an emergency that seriously dislocates its economy and calls for a quick response from the government and the Bank." These loans are rapidly disbursing, and can be used for balance of payments, critical imports, restoration of assets (e.g. production and infrastructure) without conditionality. The OP defines emergencies as "an extraordinary event of limited duration, such as a war, civil disturbance, or natural disaster." A new policy is being developed to cover emergencies in post-conflict situations, where complex humanitarian aid is needed. Countries that have received ERLs include Ethiopia, Eritrea, Cambodia and Mozambique.

H. Debt and Debt Service Reduction Loans

Countries that are highly indebted and that meet the Bank's criteria for implementing structural adjustment, may be eligible for DDSR loans to reduce debts to a more manageable level. Debt reduction can be obtained through buying back commercial debt at a discount, or converting the debt to new instruments that lower debt service payments.

I. Financial Intermediary Loans

The Bank makes loans to support national or local financial institutions which in turn lend the Bank's funds to private enterprises or local governments for projects.

J. Guarantees

To attract greater private sector investments in projects and to lower the risk of investment, the Bank will provide guarantees to both private and public sector operations. The Bank guarantees operations only when the private market, IFC or MIGA operations are insufficient to catalyze financing.

III. What is Conditionality?

Often, loans are released in installments, or tranches, if a borrower takes the policy actions stipulated by the conditions on the loan. For instance, World Bank adjustment loans often have conditions that require a government to take actions such as devaluing the exchange rate, reducing trade barriers, or privatizing

state-owned enterprises. Sometimes, if the borrowing government does *not* take the action, or comply with conditionality, the Bank will withhold the balance of the loan. The loan is in effect used as an incentive to induce a government to adopt certain policy conditions; from the borrower's standpoint, conditionality can be viewed as a potential obstacle to obtaining resources.

IV. How Are The Bank's Loans Distributed?

TABLE 1: TRENDS IN IBRD AND IDA LENDING, FISCAL YEAR 1998

(amounts in millions of US dollars)

Sector	IBRD (\$)	IDA (\$)	Total (\$)	%
Agriculture	\$1,480.5	\$1,236.9	\$2,717.4	9.5
Education	\$1,927.8	\$1,201.5	\$3,129.3	10.9
Electric power & other energy	\$1,115.0	\$889.0	\$2,004.0	7.0
Environment	\$753.8	\$148.3	\$902.1	3.2
Finance	\$6,103.0	\$141.5	\$6,244.5	21.8
Health, nutrition & population	\$911.5	\$1079.4	\$1990.9	7.0
Industry	–	\$73.0	\$73.0	0.3
Mining/extractive	\$1,369.5	\$7.0	\$1,376.5	4.8
Multisector	\$1,187.7	\$669.4	\$1,857.1	6.5
Oil & gas	\$130.0	\$10.0	\$140.0	.5
Public sector management	\$1,638.5	\$351.7	\$1,990.2	7.0
Social Sector	\$933.9	\$381.6	\$1,315.5	4.6
Telecommunications	\$68.1	\$2.4	\$70.5	0.3
Transportation	\$2,134.7	\$977.8	\$3,112.5	10.9
Urban development	\$893.6	\$223.9	\$1,117.5	3.9
Water supply & sanitation	\$438.6	\$114.3	\$552.9	1.9
TOTAL	\$21,086.2	\$7,507.7	\$28,593.9	100.0

TABLE 2: DISTRIBUTION BY REGION, FISCAL YEAR 1998

(amounts in millions of US dollars)

Region	IBRD	IDA	Total IBRD/IDA
Africa	57.4	2,816.4	2,873.8
East Asia & Pacific	8,847.0	776.2	9,623.2
South Asia	1,318.0	2,546.4	3,864.4
Europe & Central Asia	4,462.3	762.0	5,224.3
Latin America & Caribbean	5,679.5	360.2	6,039.7
Middle East & North Africa	722.0	246.5	968.5
TOTAL	21,086.2	7,507.7	28,593.9

SOURCE: *World Bank Annual Report 1998*

CHART 1: PERCENT OF TOTAL LOANS FOR IBRD & IDA BY REGION, FY 1998

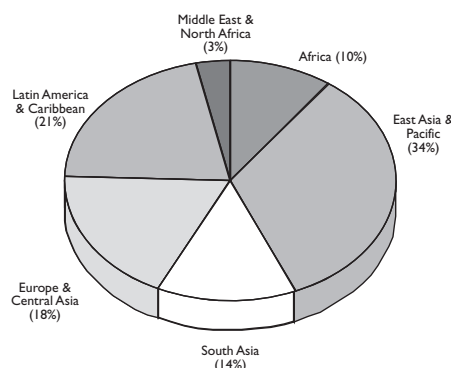
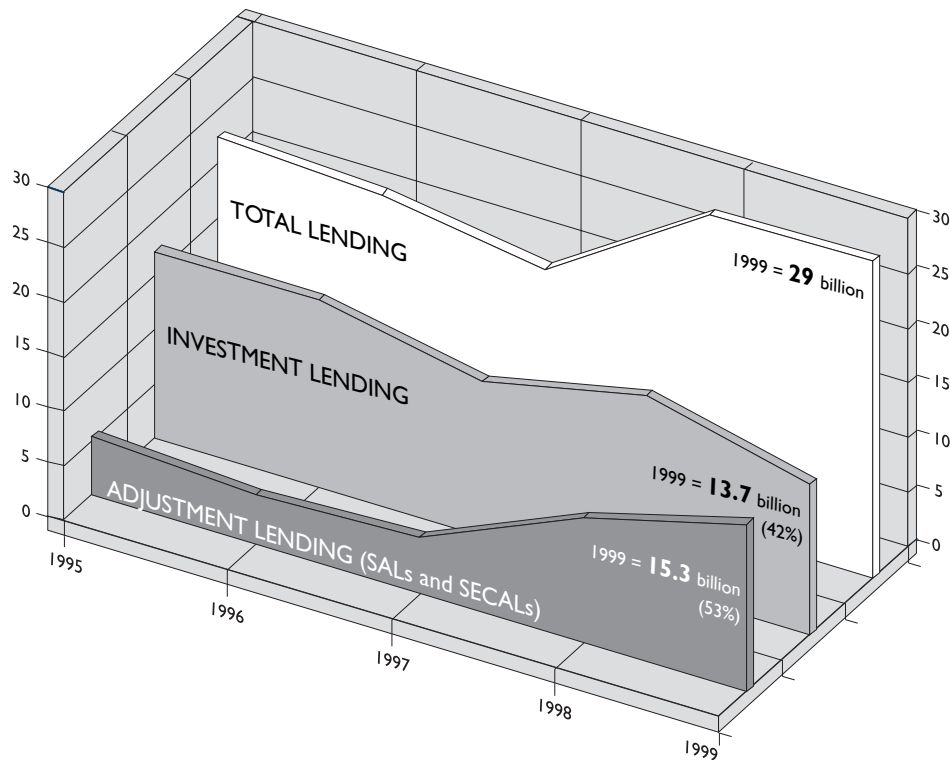


CHART 2: ADJUSTMENT LENDING AS A PERCENTAGE OF TOTAL LENDING IN 1999 (IBRD AND IDA)
in US\$ billions



	Total Lending	Adjustment Lending	% of Total
IBRD	\$22 billion	\$14 billion	63%
IDA	\$ 7 billion	\$ 1.3 billion	19%
Total	\$29 billion	\$15.3 billion	53%

Source: World Bank Annual Reports

NOTES:

- 1 IDA is the Bank's "soft loan window" which makes concessional loans to the world's poorest countries.
- 2 "Loans" refers to both loans (IBRD) and credits (IDA).
- 3 Operational Policy 10.00 Investment Lending (June 1994).

This toolkit was prepared by Kay Treacle as part of the Bank Information Center's *Toolkits for Activists: A User's Guide to the Multilateral Development Banks*. The Bank Information Center (BIC) is an independent non-profit, non-governmental organization that provides information and strategic support to NGOs and social movements throughout the world on the projects, policies and practices of the Multilateral Development Banks (MDBs). BIC advocates for greater transparency, accountability and citizen participation at the MDBs. BIC is supported by private foundations and organizations that work in the fields of environment and development, and is not affiliated with any of the MDBs.

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