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FACT SHEET

WHAT IS THE WORLD BANK?

NAME

World Bank Group – generic term for a group of five institutions:

- International Bank for Reconstruction and Development
- International Development Association
- International Finance Corporation
- Multilateral Investment Guarantee Agency
- International Centre for Settlement of Investment Disputes

ESTABLISHED

1944

LOCATION HQ

Washington DC, USA

AIM

To assist in the development and reconstruction of developing states to reduce poverty and promote sustainable development.

ROLE

To provide capital, technical assistance and policy advice for specific projects in developing countries.

HISTORY

The World Bank, also known as the International Bank for Reconstruction and Development, was established (along with the IMF) at the Bretton Woods Conference in 1944. The initial purpose was to provide loans to European countries to reconstruct their post-war economies, but since the 1960s most World Bank loans have been granted to developing countries in Africa, Asia, and Latin America.

MEMBERSHIP

The World Bank is a specialised agency of the United Nations. Membership is conditional on belonging to the International Monetary Fund. The World Bank currently has 184 members who pay a subscription (shareholding) in 'Special Drawing Rights'.¹ The minimum number of shares that a country is able to purchase is dependent upon the size of their economy. The G7² have a 45% total shareholding in the bank, of which the US share is 17%. Change to World Bank policy requires the support of 85% of the shareholders. With 17% of the voting power, the US has the power of veto.³

The World Bank is controlled by a Board of Directors which has a representative from each country. (Developing countries have approximately 50% in the Bank). The Board then delegate their power to 21 Executive Directors who meet at the World Bank's headquarters in Washington DC. Five of the executive directors are appointed by the five countries that have the largest shareholding in the Bank (USA, Japan, Germany, France and the UK). The remaining 16 directors are elected by the members for a two year term.

The World Bank grants loans only to member nations, and only for the financing of specific projects. Loans are conditional on the feasibility of the project and the Bank requires external security. Following the loan, the bank expects periodic reports from the lender, while also initiating their own observations on the progress of the project.

- 1 Special Drawing Rights: This is the currency of the World Bank and IMF. It is a theoretical currency based on the exchange rate [Aug 2001] US \$1.26=SDR 1
- 2 G7: US, UK, France, Germany, Japan, Italy, Canada
- 3 Veto: the power to prevent action proposed by others



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AFFILIATED GROUPS:**International Bank for Reconstruction & Development (1944)**

Provides loans and development assistance to middle-income countries and 'creditworthy' poorer countries.

International Finance Corporation (1956)

The IFC is the largest multilateral source for investment in private enterprises that do not have government guarantees. It provides advice and technical assistance to businesses and government, and helps private companies in the developing world gain finance from international financial markets.

Multilateral Investment Guarantee Agency (1988)

This agency was established in 1988 to promote foreign investment into emerging economies to reduce poverty. The agency provides political risk insurance (guarantees) to investors & lenders. The MIGA currently has 154 members.

International Development Association (1960)

Provides finance to countries that do not qualify for loans at market interest rates. Their loans are known as 'soft loans', or 'credits'. They bear no interest and have longer terms of repayment spread over a longer period (35-40 years).

International Centre for the Settlement of Investment Disputes (1966)

Initially created to avoid the World Bank President from becoming involved in disputes. The World Bank claim that this specialist agency, involved in settlement disputes between governments and foreign investors, promotes increased flow of international investment. Facilities are provided for arbitration and conciliation.

FINANCE:

Only developing countries can borrow from the Bank, and they only lend to governments or to an institution if the government agrees to guarantee the loan. The International Bank of Reconstruction and Development (IBRD) cannot lend directly to the private sector, this is the role of the World Bank's affiliate, the International Finance Corporation.

The World Bank provides two types of loan

1. Lending to developing countries at near-market interest rates
The money for these loans comes from private investors who buy bonds issued by the bank.
2. Lending via the International Development Association (IDA)
Member countries provide the finance and approve the loans.
There are no interest charges except for a service fee. Loans are usually conditional on the project having a minimum return of 10%

In 2002, the external debt of low-income countries stood at about \$523 billion. Of this \$399 billion was public and publicly guaranteed debt. Low-income countries owed \$104 billion to the World Bank. Of this, \$82 billion was owed to the International Development Association—the part of the World Bank that provides zero interest loans and outright grants to the poorest nations. The International Bank for Reconstruction and Development was owed \$22 billion.

Relationship with developing countries

The World Bank currently has projects with over 100 developing countries. The World Bank produces the World Development Report, which examines the major global and regional economic trends, and the implications these have on developing economies. The relationship is often fraught, as developing countries feel frustrated with the conditions imposed upon them. In particular, those related to structural adjustment that impose the free market system on developing countries and discourage planning, nationalisation, and public investment.



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Criticisms directed against the World Bank

- That the World Bank doctrine of economic growth leads directly to a reduction in world poverty is false.
- That the World Bank is run as a plutocracy by the 'North', with little accountability in order to maintain the present global wealth distribution.⁴ While the main goal of the World Bank is supposed to alleviate poverty, it would appear to provide business for US contractors.
- That as long as the World Bank continue to promote the idea of free markets, private producers and international trade, the 'South' will continue to suffer.
- That the World Bank has been an irresponsible lender in the past and that their lending criteria is often not met. Many of the previous and current projects have been ill-founded and squandered money, resulting in increased debt for impoverished nations.
- That the World Bank Structural Adjustment Programmes (SAPs) promote sweatshop labour in developing states, increase developed states exports, and promote corporate globalisation.
- That the voting system, which relates directly to a member nation's financial contribution, marginalises the developing countries.
- World Bank financing for developing countries often involves buying materials and services from developed countries. It is estimated that for every US\$1.00 that is contributed to the World Bank, the US gain US\$2.00 worth of business contracts.⁵
- That the scale of World Bank projects require the technical expertise of the developed world and ignores small scale, local alternatives.
- World Bank poverty assessments are inconsistent and inadequate. The World Bank assesses the impoverished as those who live on \$1.00 or less per day. All of the World Bank poverty indicators stem from this. There is no comparison of poverty in the developed world. This contrasts with other poverty indicators (eg. 13% of US citizens are said to live in poverty on an average of \$11.00 per day.⁶).
- Opponents claim that the World Bank invests in environmentally harmful projects, weakens environmental policy, and fails to provide proper impact assessments. World Bank policies have directly resulted in forced evictions, loss of land and livelihoods.⁷

GLOSSARY

Plutocracy	The rule or control of society by the wealthy
G7	US, UK, France, Germany, Japan, Italy, Canada
Veto	The power to prevent action proposed by others

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