CHAPTER 3

LEADING CRITERIA: A CRITICAL STUDY
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This chapter describes the major operational policies of the Bank as they have evolved to date. The policies relate largely to methods and standards by which the Bank seeks to determine before committing a loan as to how much it can prudently lend, what types of loans are most likely to achieve those purposes, and what are the conditions which will assure that the Bank's financing will be used effectively for productive purposes.

ECONOMIC CONSIDERATIONS

The basic purpose of Bank's financing is the effective promotion of a member country's economic development. To ensure the effectiveness of this financing, the Bank has to know and understand the economies of its member countries and keep in touch with their progress. It seeks to obtain a comprehensive picture of the structure and development prospects of the economy. The assessment of repayment prospects involves an exercise of judgment, taking into account several factors, its infrastructural facilities, the quality of public administration, education, etc. A country meeting this test is
often referred to as "credit worthy".

The probable impact of all these factors upon the borrowing country's future balance of payments must then be assessed in the light of such considerations as the likely prospects for the country's principal exports and imports and the effect of population increases. The amount and structure of a country's existing and prospective external debt is a major element in this judgment.

It must be emphasized that the credit-worthiness of a country is not determined by economic factors alone but by other factors also such as its attitude towards foreign debts. A country which shows willingness to maintain debt at the express of, if necessary, sacrifices in consumption standards, is plainly better than a country, even with a potentially somewhat stronger economy, which does not treat its foreign obligations with equal seriousness. In this situation, past debt situation would be significant.

The Critics

It is asserted that its effectiveness as an aid to development is severely curtailed by its insistence on making sound loans by banking standards. The criteria by which the Bank judges reasonable assurance for repayments is so harsh as to eliminate a large number of worthwhile projects and cut off from the Bank's help those very
borrows who most need it. Moreover, this procedure involves long time in granting the loans and becomes a hurdle in the quick economic development of the underdeveloped countries.

As against this one argument is generally advanced that this restrictive standard and the loss-free record are the chief conditions on which private investors are willing to participate in Bank loans or purchase its own securities. The problem of trying to meet two different and conflicting sets of demands is one which is generally faced by every international lending institution which attracts the private capital to participate in its activities. But this conflict has probably been most acute in the case of the World Bank. Even then it must be emphasized that the Bank should not apply orthodox standards of judging the transfer capacity of any borrowing country. The transfer capacity follows rather than precedes the loan. It is created in course of time as the projects sought by loans materialize.

Specific project provision

The foreign assistance which is provided by the donor countries and multilateral financial institutions are of two types, i.e., project-tied and non-project aid, i.e. programme loans. Under the Articles of Agreement the Bank is required to lend its funds except in special circumstances for specific projects and to ensure that the proceeds of these loans are used for their purpose. The objective of this provision
is to assure that loans are user for the most productive projects. The term "project" is interpreted as comprising both a single sector. Moreover, assistance for specific projects. The term "project" is interpreted as comprising both a single project and a series of related projects in the particular new capital facilities such as roads and electric power facilities. The essential point is that such assistance is utilized to augment the capital stock of the recipient country in some specific, clearly identifiable way.

The Bank believes that if the loans made by it are used for unspecific purposes which have not been pointed out in the projects, there will be a danger that resources will be used without no contribution to the expansion of productive capacity. In earlier times the projects presented to the Bank were unsatisfactory in terms of identification, preparation or supervision, as well as economically disadvantageous. Even in many cases cost estimates were not correct.

**Programme Lending**

In special circumstance the Bank may make non-provide the most effective way of helping the development of a member country. Such special circumstances may rise when a borrowing country presents a development programme. The experience of the Bank shows that most of the programme lending has taken the form of provision of foreign exchange to enable materials and equipments to
be imported which are most important and beneficial to the maintenance and effective use of existing productive facilities. It must be noted carefully that the procedures for examining and processing programme loans are basically the same as for projects loans.

**Project Vs programme Lending**

Foreign aid should be conceived and made available for the plan as a whole and not for certain projects considered in isolation. IBRD's conception of projects and project lending has been fairly broad and flexible within the limits set by identifiable expansions of productive capacity and the financing of Imports relatable to this expansion. Under the Articles of Agreement the financing of imports that may add to production but not necessarily to capital investment, is justifiable only in "exceptional circumstances". Similarly, the financing of local expenditures, even though undertaken for the purpose of capital investment, need the covering clock of "exceptional circumstances". The exceptional circumstances, those that would justify the financing of local expenditures or the making of what have come to be called "Programme loans", has been a perennial issue in discussions of Bank lending policy.

As a leader in various consortia, the Bank has frequently found itself exhorting bilateral assistance providers to increase their
programme lending although it has shown little disposition to follow its own device. The Pearson Commission which was initiated and financed by the Bank, recommended with respect to local expenditure financing that aid-givers should remove regulations which limit or prevent contributions to the local costs of projects and make a greater effort to encourage local procurement wherever economically justified.

At some stage, consideration should also be given to a general review of the Articles of the World Bank which were conceived and drafted in the environment of the 1940s. This is becoming necessary as the basic economic situation of the developing countries is undergoing a fairly rapid change, calling for a greater measure of flexibility in the Bank's operations. For instance, the original articles expected, quite rightly at that time, that the bulk of the Bank assistance would be in specific projects and in foreign exchange, and the restrictions were built into the rules of the Bank against programme lending the local cost financing. However, recently the Bank has become much more interested in general economic performance of the country, but still the Bank's actual operations are to get around these restrictions as the needed flexibility is sometimes missing. Keeping in view the growing requirements of foreign aid of the Third World countries, programme lending and local cost financing still have to be justified on a case by case basis.
Selection of Project

The available resources of every country and its capacity to borrow abroad are limited. To the extent that they are devoted to those undertaking which will contribute most to strengthening the economy of the borrowing country.

The Bank tries to achieve this objective by making an investigation into the overall economic position of the borrowing country, taking into account the proposed investment expenditure and probable investment resources and the relation of individual projects of the country's major development needs.

The Bank expresses its view accordingly in its discussions with the authorities of the country concerned, emphasizing its particular preference for financing the project that seems most urgently required and advising the postponement of those that appear less immediately important to the country's economic development. Projects may also be identified through the work of other UN agencies such as the UNDP, FAO, UNIDO and UNESCO.

The Bank's basic knowledge of an entire sector of a country's economy (i.e., transportation, agriculture, industry, etc.) is becoming increasingly important for the identification of projects and the determination of investment priorities. It, therefore, encourages the
work of planning units in government ministries or agencies responsible for sectoral development. Such pre-investment surveys may also be financed by the UNDP. The Bank often assumes responsibility for such surveys as Executing Agency for the UNDP.

Project Appraisal

After considering the identification of the project, the next important issue is the analysis of the project or the project appraisal. The appraisal of the project itself involves the investigation of six different aspects, namely economic, technical, commercial, managerial, organizational and financial.

Let us now critically examine the different aspects of project appraisal referred to above.

Economic Aspect

Economic analysis is at the core of the Bank's lending operations. It is an important factor in decisions on projects. Being a fundamental, it logically preceds all other aspects, because the Bank will not finance unless the project demonstrates the high-priority use of the borrowing country's resources. The Bank considers that merely financial analysis looks at the project from the limited point of view, while an economy and judges the benefits accruing from the project. In order to determine whether it has a reasonable chance of
achieving its objectives, the cost-benefit calculation is taken into account. A comparative analysis is made of the likely economic costs and analysis.

Economic benefits conferred by a project normally take the form of an increased output of goods or services either directly or indirectly. This increased production will generate more income in the hands of different kinds of people, such as increased wages, more employment of domestic resources which would, otherwise, be unutilized, employment for labour, larger government revenues, higher earning for the owner of capital, etc. In addition, it will ease the balance of payments effects on the economy. This specific composition and distribution of a project's benefits has to be looked at separately from the aggregate "bundle" of benefits used. For example, in calculating a rate of return, they must also be judged in the light of a project's general objectives.

Technical Aspect

In this aspect the project is appraised from the technical and engineering point of view. Sound engineering is fundamental to project preparation and appraisal. In spite of the great importance of engineering, the Bank does not undertake any original engineering work in the course of its appraisal. The main items coming under this heading include the proposed scale of the project, the types of
process or equipment to be used, the location, its layout, design, environmental consequences, and the availability of various sectors of production such as power and raw materials, etc. Cost estimates are also designed in detail, and the provision for general costs increases is also made. To appoint consulting engineers is the duty of the borrowing country.

**Commercial Aspect**

The main objective of the commercial aspect is to see that the proposed arrangements will ensure that the best value is obtained for the money spent. Effective competition among potential suppliers can be induced through international competitive bidding, and in the project of any real size this is usually the most desirable arrangement. Often the advice of consultants is essential in evaluating bids. Savings on transportation and insurance may be possible in a large project by making centralized arrangements for their services. In the operating phase, commercial problems vary considerably from sector to sector. In industry, for example, the likely terms of purchase of the ingredients of production and the sale of products need careful examination.

**Managerial Aspect**

Management is the most difficult of all the elements of a project.
to appraise. When a project is to be carried out, much can be learnt from the past experience. The shortage of good management and ability is one of the main constraints standing in the way of economic development in many countries. It is in some cases compounded by an unwillingness to employ foreigners in the positions of management responsibility or by the scarcity of suitable foreign technicians. One solution to this problem may be partnership between local investors and an existing foreign enterprise. Another possibility is to have professional managing agents to provide centralized management services for a number of organizations. In some cases, management contracts can be arranged with a foreign organized. One of the objectives of such arrangements is to see that local people are trained by foreigners so that the former take their places as soon as it is practicable.

Organization Aspect

As a lender and as a development institution the Bank lays particular stress on the organization of the enterprises responsible for the execution of the project. In due process of appraisal the stability of the organization is examined in detail. If one or the other is found wanting, remedial measures include short-term remedies such as the recruitment of qualified personnel to assist in running the enterprise at least during the initial stages, and long-term remedies
such as a management study, a re-organization or the creation of new autonomous agency to operate the project.

The objective of this aspect of the appraisal is to make sure that the project is adequately carried out and that a locally-staffed institution capable of contributing effectively to the development of the sector in question is created.

Financial Aspect

The fundamental purpose of financial analysis is to determine whether the enterprise to construct and operate the project is financially sound. The scope of this aspect of the appraisal varies, of course, considerably with the nature of the project and whether it is revenue-producing (i.e., transportation, electric power, industry, etc.) or otherwise (education, highway projects, etc.) Often the Bank finances only a fraction of the project, and the project itself is usually a part of the investment in the sector. Where the Bank considers it essential to the project, it may finance some local costs of the projects, provided the general economic situation of the country makes it eligible for local cost financing.

Until 1960 the Bank had been financing the project in sectors such as transportation and electric power, etc, but since 1960 it began expanding its lending into new sectors such as agriculture,
population planning, education, tourism, water supply, and so on. In its early years most of the Bank lending was for "hardware" projects that simply added physical works or goods to economy such as dams and power plants. Today Bank lending is frequently for "software" such as school construction; this change typifies the Bank's move into all kinds of synergistic projects that can achieve development objectives by bringing about policy changes.

From the above discussion we conclude that the Bank offers good advice for the preparation, selection and appraising the projects. While delivering a Gabrial Silver Memorial Lecture, George D. Woods President of the World Bank also pointed that the Bank played an advisory role of considerable scope and variety concerned with economics, engineering, administration and other factors bearing on project execution.

**TERMS OF LENDING**

The three parameters in terms of the Bank lending, namely the rate of interest, commission charges, and grace and amortization period need to be discussed here.

**Rate of Interest**

The Bank normally makes two types of development loans, i.e. medium and long-term loans. The question arises: Why does the
Bank charge interest on its developing countries through its own borrowings from investors who buy its obligations. Investors require a competitive yield on the money they payments to those who buy its obligations. Investors require a competitive yield on the money they lend to the Bank. In order to offset the cost of its own interest payments to those who buy its obligations, the Bank must in turn charge interest from those who borrow it. The Bank's ability to raise funds in the capital markets of the World depends largely on the soundness of its investments. As it does maintain a sound financial position. It is does maintain a sound financial position. It can borrow in the capital markets of the world at the lowest available rates. It lends to developing member countries at or near the rate of interest it itself pays.

Another important question arises at this stage. How does the Bank determine the rate of interest it charges on its loans? In this regard, the three components, namely "the estimated cost of borrowing to the Bank, the commission and the fraction of administrative cost," which make up the total rate of interest on each loan, need to be studied.

Since the largest source of the Bank's loan funds are the capital markets on which it sells its obligations, the cost of funds in these markets is the principal determining factor in setting the rate of
interest the Bank's charges from its borrowers. Adjustments in the Bank's lending rate either up or down, reflect the changing costs to the Bank of the money it raise. These adjustments do not affect the rate of interest on existing loans, but only the rate charged on loans made subsequent to an adjustment. The Bank realized the burden of borrowing costs on the keep its lending rate as low as is computible with the maintenance of a sound financial position on which its own ability to raise moeny in the capital market depends.

Commission Charges

In addition, the Bank charges on all loans a commission of 1% for the purpose of creating a special reserve against losses. The Bank has set up, as required by its Articles of Agreement, a special Reserve Fund instead of liquid assets which may be used only to meet the Bank's own obligations arising out of borrowing or guarantees. Commission charges were discontinued in 1964.

To compensate the Bank, to some extent, for the cost of holding funds at the disposal of the borrower, a commitment charge is made on the undisbursed portion of a loan. This fraction is charged about a quarter, i.e. 3/4 of 1%. In the case of Bank's early loans this cost was originally set at 1½% but in 1950 the Bank reduced it to ¾ of 1% for new loans and for the undisbursed portions of existing loans. The charge accrues from a date 60 days after the date of the loan
agreement. It is important to note that interest and other charges on Bank loans have a uniform basis without distinction among borrowers.

**New Lending Rate Formula**

The new lending rate formula that became effective on July 1, 1996, provides that the Bank's lending rate is to be reviewed at the end of each quarterly period and adjusted to the average weighted cost by amount and maturity of funds borrowed by the Bank in the preceding months. To this calculation, a positive spread of 0.5% is to be added to arrive at the interest rate that the Bank will charge from the borrowers on new loans approved in the ensuing quarter.

The formula is to be applied pending consideration by the Executive Directors of a comprehensive review of the Bank's lending rate policy, including analysis of a proposal calling for "full-cost coverage", and pending consideration, among other possible alternatives, of a policy in which the lending rate would be adjusted periodically during the disbursement period of loan.

The impact of this formula on revenues received from loans will become evident as disbursements, increase on loans granted in fiscal year 1997 and in subsequent years. In July 1996, the interest rate on
Bank loans was fixed at 8.9% in October 1996, the rate fell to 8.7%. Three months later, the rate dropped to 8.5%. For the last quarter of 1997, the rate was 8.2%. The decline in the interest rate charged on Bank loans reflected a decline in the interest rate charged on Bank loans reflected a decline in the cost of borrowings to the Bank during the fiscal year of 1997.

Changing conditions in the world capital markets, particularly in the United States, led to upward movements in the interest rate on new Bank loans from 6.0% in 1960 to 8.85% in 1996 and 8.2% in 1997.

The table 3.1 is illustrative of the rates of interest charged by the Bank.
Table 3.1
Changes in the Rate of Interest (1947-98)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of Interest (%)</th>
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<tbody>
<tr>
<td>1947</td>
<td>4.5</td>
</tr>
<tr>
<td>1950</td>
<td>4.0</td>
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<tr>
<td>1953</td>
<td>5.0</td>
</tr>
<tr>
<td>1955</td>
<td>4.8</td>
</tr>
<tr>
<td>1960</td>
<td>6.1</td>
</tr>
<tr>
<td>1965</td>
<td>5.5</td>
</tr>
<tr>
<td>1970</td>
<td>6.9</td>
</tr>
<tr>
<td>1971</td>
<td>7.2</td>
</tr>
<tr>
<td>1992</td>
<td>7.3</td>
</tr>
<tr>
<td>1993</td>
<td>7.3</td>
</tr>
<tr>
<td>1994*</td>
<td>8.0</td>
</tr>
<tr>
<td>1995**</td>
<td>8.5</td>
</tr>
<tr>
<td>1996</td>
<td>8.9</td>
</tr>
<tr>
<td>1998***</td>
<td>8.2</td>
</tr>
</tbody>
</table>
One may criticize that the present rate of interest, charged by the Bank is very high and intolerable, especially for underdeveloped and developing countries. Its terms of lending are inflexible because it does not make any allowance for difference in credit-worthiness among its borrowers. It lends to all member borrowers at the same rate of interest.

For this purpose it is proposed to consider the period after 1960. In the first half of the sixties the rate of interest charged by the Bank from its borrowers was about 1-2/5% points more than the rate of interest it had to pay on its bonds. When the cost to the Bank of its borrowing rose from 4% in 1964 to 8% in 1971, the rate of interest charged by the Bank did not rise to the same extent. It rose only 5½% to 7¼%. The result was that in the fiscal year 1971, instead of a positive spread of about 1-2/5% points between the cost of borrowing and the rate of lending, there was a negative spread of about 4/5 of 1% point. In the fiscal year 1992 the cost of the Bank borrowings fell to 7-2/5% with the result that the negative spread
### Table 3.2

Spread between cost of Current Bank Borrowing and Interest Rate

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</tr>
</thead>
<tbody>
<tr>
<td>1. Average Cost of current Bank Borrowing</td>
<td>4.97</td>
<td>4.14</td>
<td>4.54</td>
<td>4.18</td>
<td>4.00</td>
<td>4.69</td>
<td>5.26</td>
<td>5.49</td>
<td>6.34</td>
<td>6.53</td>
<td>7.54</td>
<td>8.03</td>
<td>7.38</td>
<td>6.92</td>
</tr>
<tr>
<td>2. Interest Rate of Bank Loans</td>
<td>6.06</td>
<td>5.75</td>
<td>5.75</td>
<td>5.54</td>
<td>5.50</td>
<td>5.75</td>
<td>6.00</td>
<td>6.15</td>
<td>6.48</td>
<td>6.95</td>
<td>7.23</td>
<td>7.25</td>
<td>7.25</td>
<td></td>
</tr>
<tr>
<td>3. Spread between Cost and Current Bank borrowing and Interest</td>
<td>1.09</td>
<td>1.61</td>
<td>1.21</td>
<td>1.39</td>
<td>1.50</td>
<td>0.81</td>
<td>0.49</td>
<td>0.51</td>
<td>-0.19</td>
<td>-0.05</td>
<td>-0.59</td>
<td>-0.80</td>
<td>-0.13</td>
<td>0.33</td>
</tr>
</tbody>
</table>

Notes: 1. Weighted by amount and maturity. 2. Weighted by amount only.

Source: E. Scott Reid, op. cit., p. 225
meant that the Bank gave all its borrowers a subsidy, whether they were rich or poor countries.

Table 3.2 shows the current cost of borrowing by the Bank and the interest charged by it on its loans. The question that arises at this stage is whether the subsidy given by the Bank to its borrowers is the difference between the rate of lending and the cost of current Bank borrowing. On this point a little controversy can be raised. One could say that the cost of money to the Bank is not the cost of all the money it has made available for lending but it includes its interest free endowment and its reserve. On the other hand, it can be said that the cost of current Bank borrowing but also the costs of administrating the lending programme.

In practice the Bank is precluded from lending to countries which can raise their resources in the world capital markets. The countries (with per capita GNP in 1970 of at least $1600 year) are ineligible to receive Bank loans. But some rich countries have contended that they can raise funds in the capital market but not in sufficient volume and on reasonable terms and therefore, they claim to be eligible to borrow from the Bank.

The rich members of the Bank which borrowed from it in the fiscal year 1969-92 were clearly market eligible countries. As soon as they are able to raise all the funds they need in the world capital
market, they will be ineligible to borrow from the Bank. The development Assistance Committee (Annual Report of 1971) reported that the main developing countries which raised capital during the sixties were; Israel, Argentina and Mexico, and further stated that 13 more countries were approaching the same categories having made several issues of bonds in the capital markets.

Mexico, Argentina and these 13 counties borrowed a total of $832 million from the Bank in 1971, and $961 in 1992. The average annual borrowings from the Bank of this group of countries are likely to increase over the next 10 years or so. Their borrowings during the 10 fiscal years (1984 to 1993 both inclusive) might average at least $1000 million a year (in 1992 dollars). If all these loans were made at a rate of 1½% percentage points above the current cost of Bank borrowing, the gross profit on these loans at the end of 10 years would be $150 million a year. This profit could have been used to increase both the reserves of the Bank and the help it give to its poorest member countries by the transfers of Bank profits to IDA or in other ways.

The Bank can re-establish a differential rate of interest, for those countries which are market eligible. The rate might be 1½ percentage points above the current cost of Bank borrowings. Whether a country is or is not market eligible would be a question of
test. The test would be whether a country could raise a part but not all of the capital it needed on reasonable terms in the world private capital markets. This is a broader definition than that adopted by the Bank in 1965. In charging from one group of borrowers a higher interest than from another, the Bank would be following the practice of the Inter-American Development Bank (IADB) in its concessional loans.

**Grace and Amortization Period**

The Bank normally makes medium or long-term development loans with the principal repayments beginning at the end of a period of grace and thereafter over the remainder of the life of the loan. The grace, in which interest but not amortization payments are due, is decided in relation to the expected lapse of time between the date of commitment and the time at which the project concerned will come into operation and begin to yield substantial net benefits. Thus, in the case of a loan for an education project a ten-year grace period is common while loans for roads typically have a shorter period, of perhaps 4 to 7 years. In establishing the length of its loans the Bank has generally followed the principle that the term should bear some relationship to the estimated useful life of the equipment or plant being financed. For example, the cost of a hydroelectric power plant consists partly of the installation such as a dam, embankments and a
power house and so on, which last for a very long time. For such projects the Bank has usually made loans for 20 to 25 years. On the other hand loans made for the purchase of less durable goods such as trucksa or farm machinery have often been for about 7 years.

Loan contracts, as a general rule, provide for equal semi-annual instalments made up of principal and interest payments. The payments of principal gradually increase as the interest payments decrease until the loan is completely amortized by final maturity. The borrower is normally given a period of grace ranging from 2 to 5 years before the first principal instalment becomes due; it is generally determined by the time estimated to be necessary to bring the project into operation.

It can be suggested that the differences in the rates of interests on Bank loans should be accompanied by differences in maturities and in grace periods before the repayments of principal begin. As a general rule, loans to market eligible countries should be for 10 to 15 years with grace period of 1 to 5 years, those to middle income countries should be 20 to 25 years with grace period of 1 to 10 years, and to low income countries should be for 30 years with 10 year grace period. It can also be suggested that the grace periods on loans to market eligible countries and middle income countries should be related to the gestation period of the projects financed by loans.
TYPES OF EXPENDITURE FINANCED

It has been the Bank's practice not to finance the whole cost of any project or programme. It generally makes loans in the form of foreign exchange which is required to finance the imported equipments for the particular project. Such loans cover only the direct import needs to meet the development financing requirements of the borrower and at the same time it assures that the foreign exchange furnished by it will used for directly productive purposes.

Moreover, under the provisions of the Articles of Agreement the Bank in "exceptional circumstance." Such lending has increased in recent years and relates particularly to high priority projects which have a low foreign exchange cost. The situation is different in the case of those countries, primarily capital equipment producing countries, whose direct foreign exchange requirements for imported capital goods for investment projects suitable for Bank financing, are small in relation to their credit-worthiness. Such countries may not have sufficient genuine savings of their own to provide all the capital required for productive projects, and financing them by credit creation might jeopardize monetary stability. In these circumstances the Bank makes foreign exchange available to cover part of the local costs.

It is important to note that the ability to finance local
expenditure thus provides an element of flexibility, enabling the Bank to lend for the projects of greatest benefit to country's development even though the direct foreign exchange requirements for these projects may be small. An important question arises here: What should be the extent of special circumstances to finance local expenditures? It generally depends on the nature of the project to be financed and special circumstances prevailing in the country.

Methods of procurement under Bank Loans

The Articles of Agreement prohibit from tying the use of the proceeds of any loan to expenditures in the any particular country. At the same time, Articles require the Bank to ensure that the proceeds are used only for the purpose for which the loan was granted with due attention to the considerations of economy and efficiency. Thus, all member countries which make loans in making from the Bank are free to use the proceeds of their loans in making purchases in any country wherever they wish, provided they observe a proper standard of economy and efficiency in addition, purchases may be made in Switzerland.

In the interest of the borrowing country, the Bank attaches great importance to the procurement of goods and services needed consistent with satisfactory performance. Moreover, as a cooperative international institution one of principal purpose is the promotion of
the long-range balanced growth of international trade. The main reason for this is that the Bank wants all of its member countries to have a fair opportunity to supply goods and services which are financed by Bank loans (other than consultancy services). For this purpose it encourages its borrowers to make purchases on a competitive international basis unless this procedure is clearly inappropriate. In some cases, to ensure that maximum benefit is obtained from this system of procurement, the Bank advises its borrowers to employ a qualified consultant to assist in determining the qualifications of bidders, in preparing specifications and in analyzing the relative merits of bids where, in addition to price, such considerations as delivery dates, quality and performance must be taken into accounts.

Sometimes, in special circumstances, international bidding on a competitive basis may not be appropriate. For example agricultural projects, such as those involving the provision of credit to local farmers or the purchases of breeding livestock, come into this category. Moreover, one exception is usually made with regard to the Development Finance Companies (DFCs) where it is difficult to require that special procurement arrangements should be made by numerous private firms obtaining funds through these local financing institutions.
In addition to the above, certain developing countries which are making efforts industrialization, impose high tariffs on imported industrial goods which have the effect of stimulating the growth of industries. In these circumstances the Bank allows a margin of preference on bids submitted by local suppliers, equal to the level of import duties in the borrowing country, and subject to a maximum of 15%. In the case of construction work no such margin is allowed.

There is no doubt that the procedure of procurement ensure efficiency and economy in the use of proceeds of the Bank loans, but this policy can be criticized on the ground that it is more time consuming. Moreover, occasionally, it is irritating to less developed countries. In this way this procedure leads to frustration. In addition, there are certain restrictions in the Bank's Articles of Agreement. For example procurement of goods and services restricted only to Bank members, extremely limited margin to developing countries for procurement within their own country and restricted financial rate-of-return criterion. To ease the problems of the procurement of goods, one is tempted to suggest that there should be more training programmes and facilities for the officials of developing countries in the field of procurement.
LEVERAGE

It generally but not frequently happens that the Bank's examination of general economic considerations in the borrowing country reveals the existence of economic or financial practices which badly affect the financial and monetary stability of the country, and if continued, they would endanger both the productive purpose and the repayment prospects of any Bank loan. In such circumstances the Bank requires that the borrowing country should adopt such types of measures which may restore stability to its economy. The Bank, however, does not insist that all remedial measures which may appear necessary in the case of any given country, be completed before that country may qualify for a loan. But it does not mean that the Bank relies on mere representation by the Government concerned that such remedial measures will be taken in due course of time. For this purpose, the Bank chooses the midway between these two extremes because it needs concrete evidence that the borrowing Government is actually taking appropriate steps to establish stability.

In addition, the Bank has taken similar steps in the case of those countries whose credit is impaired by the existence of an unsettled default on their outstanding foreign obligations. It is required under the provision of the Articles of Agreement to encourage international
investment for the development of the productive resources of its member countries. It has, therefore, a direct interest in the creation and maintenance of satisfactory relation between its member countries and their external creditors. Accordingly, it informs member countries about their default on foreign obligations; and expresses its inability to assist them unless and until they take suitable steps to reach a fair and equitable settlement of their debts.

The Bank believes that it can use its influence to prevent the diversion of investment resources to low priority uses which is generally the effect of nationalization measures. It must be remembered that the Governments of member countries, however conscientious, are apt to be subject to political pressures to emphasize short-term objectives which promise immediate advantage rather than policies designed primarily for their long run development, particularly where long-range policies entail some sacrifice of immediate benefits or adversely affect important local interests. In such a situation the Bank's insistence on appropriate economic and financial measures to create a favourable environment for a long-term development has not infrequently provided a countervailing influence of some considerable significance.

There is no doubt that the Bank cannot be guided in its decision by political considerations and bases its policy on economic criteria
only. Economic policy may be linked to political considerations and may have an influence on the domestic affairs of a country.

In this regard, it can be argued that the Bank's political impartiality derives from its status as an international organization jointly-owned by its member countries. The Bank's impartiality would give it a definite advantage in doing a job where success depends on an effective cooperation between the Bank and each of its members. The Bank frequently gives member countries advice on their economic policies, mainly through periodic economic reports; such advice will be more likely to be accepted when borrowers are aware that the adviser has no political motive. Its political impartiality would give the Bank the maximum degree of operational flexibility, its contribution to the world development effort will not be compromised by the instruction of political considerations. Sometimes it is criticized as pro-capitalist and dominated by imperialist powers. As Mr. Dulal Khound pointed out, the World Bank has been instrumental in the hands of neo-colonialist, imperialist forces. Experience has shown that whenever the World Bank grants any loan to any developing country, it not only tries to fix the economic priorities but also interferes with and tries to mould the economic policy of the particular country. Our experience has shown that in 1985 when India wanted to build a big coal based fertilizer plant, the World Bank refused to grant any loan. In the
same way, in 1953 when Government of India wanted to establish Industrial Finance Corporation of India in the public sector, the Bank also refused and helped in the establishment of the ICIC in the private sector. The Bank has also tried to exercise the leverage in Thailand, Iran and Burma.

PROJECT SUPERVISION

To complete the so-called 'Project Cycle', a word needs to be said about project supervision. A sizeable portion of the time of the technical personnel of the Bank is employed in this activity. The scope of supervision is determined by the Bank's general objective to help ensure that the project is carried out so as to contribute to the economic development of the borrowing country. In this way Bank's supervision of the project must cover all the aspects of a project in order to get satisfied that the project has been implemented as originally intended, is appropriate in the light of changing circumstances, and that all the different conditions of lending are properly carried out.

All projects face risks and uncertainties, sometimes these lie in the nature of a project and sometimes they are external to it. Some problems are within the power of the borrower but there are some which the borrower cannot control. In these circumstances one function of Bank's supervision is to alert the Bank to check up what
is going on with the project. However, it is not supposed to criticize the responsible authorities but, on the contrary, it share the borrower's interest in the success of the project so that problems and their solution are a matter of joint concern.

The volume of supervision work is large. The number of projects being supervised has been increasing tremendously. The rising trend reflects the facts that the rate of lending operations is increasing at a high rate and that supervision work is becoming more intensive.

**Stage of Supervision**

The Bank's supervision takes three stages in the process of supervising a project:

(i) "from signature to effectiveness;

(ii) the investment stage;

(iii) the operating stage."

*Form Signature to Effectiveness*: Generally the Bank permits the borrower to make loans effective as soon as possible, i.e. within the course of three months since the date on which the loan has been committed; otherwise the Bank has the right to cancel the agreement. To avoid the problem with regard to period, the Bank has been
increasingly sending supervision mission to borrowing countries in the interval between signature and effectiveness. They help the borrower to take steps necessary to make the loans effective.

The Investment Stage: At this stage which usually lasts several years, the bulk of supervision is carried out. In order to see that the Bank may have the legal right to supervise projects, various agreements are included in the loan documents. Three of them are of the cost of carrying out the project, to allow the representatives of the Bank to visit the project, and to submit information concerning the progress of the Bank, therefore, asks its borrowers to keep it informed, through the submission of progress reports, of every aspect of the project. An experienced project management does not have any difficulty in submitting such information to the Bank.

The Opening Stage: After the investment stage is over, the supervision work load normally diminishes. An important function of supervision during this stage is to collect information about the benefits compare with those which were foreseen at the time of project appraisal. In order to carry out this function efficiently, plans for the collection and processing of information about the benefits of a project need to be made well before they begin to accrue.
One common technological progress of the past two or three centuries has opened the way to use the world's resources for the benefit of its inhabitants with increasing effectiveness. In the field of technical assistance there is every reason that a U.N. specialized agency like the IBRD should assume the dominant role. The reason is that a poor country attempting to acquire new techniques and modern methods of conducting its business, finds itself in the early stages of development in a position of spiritual dependence on outside. The concern of the IBRD with the provision of technical assistance to underdeveloped countries is a direct outgrowth of its financial responsibilities.

But in many underdeveloped countries productive investment is retarded not only by the lack of capital but also by the lack of knowledge and experience required to convert promising ideas for development into practical projects ready for financing.

The technical assistance which the Bank can make to balanced development. This assistance has been confined to fields where, because of its character as a development finance institutions for providing help, and especially where its assistance might be expected to facilitate new capital investment in high priority projects.
Assistance in Development Programming

Until the mid-1960s the Bank's chief task was to organize general survey missions on the request of its member governments. The primary purpose of these missions was to survey the development potentialities and problems of the countries concerned and to make recommendations that would assist the governments concerned in formulating long-term development programmes. These missions noted, with few exceptions, the absence of any effective government agency charged with designing a consistent overall framework of development and appraising proposed projects within the pattern of such a framework. There have been 25 such missions whose reports have been published for the use of government officials and non-specialists as well. The terms of reference of these survey missions varied in accordance with the needs of the respective countries but their basic purpose were identical.

Secondly, to assist governments with development programmes, staff members have been assigned to member countries as resident advisers for periods ranging from a few months to several years. Countries where the missions of this kind are located are Afghanistan, Bangladesh, Ethiopia, Ghana, India, Nepal, Pakistan, Tanzania, Zaire, Colombia, Nigeria and Sudan. In addition, the Bank has been maintaining a resident staff in Indonesia since 1968 to
assist and advise the Government of Indonesia in the formulation and implementation of economic policies.

Thirdly, the Bank has established its own 'Planning Organization Advisory Division', the chief task of which is to provide technical assistance to member countries with regard to suitable machinery for the formulation and execution of development plans and programmes.

Preparing High Priority Projects

The usefulness of development planning has by now received widespread recognition among the member countries of the Bank, many of which now have development plans or are preparing them.

The Bank has, therefore, of late been laying emphasis on its technical assistance to project preparation and earlier steps of project identification. Principal among these techniques are sector and feasibility studies, cooperative arrangements with the Food and Agriculture Organisation (FAO), the Bank's Permanent Mission in Africa, and Resident Staff in Indonesia. Now it is desirable to discuss the above-noted methods separately.

(i) Sector and Feasibility Studies: The term Sector is used to denote the whole or part of a particular sector of the economy, i.e. electric power or agriculture, transport, etc. with a view to drawing
up a coordinated investment programme for that sector and identifying projects within a particular sector. The studies have been financed by the Bank itself or by the UNDP for which the Bank acts as an Executing Agency.

(ii) Cooperative Arrangements: In 1964, the Bank decided to increase their activities in the field of agriculture and education and entered into agreement with the FAO and UNESCO staff frequently participate in these activities; and may, in appropriate cases, provide technical assistance in project execution. The arrangements with FAO and UNESCO are the only formal cooperative agreement of their kind which the Bank has entered into. The Bank does, however, consult other agencies such as the World Health Organisation (WHO), International Labour Office (ILO), and International Telecommunications Union (ITU) regarding the projects within the special technical competence of those agencies.

(iii) Permanent Missions: To increase the flow of well-prepared projects from the African countries, where the shortage of such projects has been particularly critical, the Bank in 1965 established permanent mission in Eastern and Western Africa, primarily to assist Governments of those areas to identify and prepare projects for Bank or IDA financing. The mission have their offices in Nairobi and Abidjan respectively. For the time being, they are concentrating on
the agricultural and transport sectors and they may provide assistance for other sectors as well. They are also available to advise governments on policy issues and practical problems which may arise in connection with these projects.

(iv) Other Project Assistance: To help alleviate the difficulty or recruiting qualified people to organize and mange agricultural projects the Bank has established the Agricultural Development Service which is attached to the permanent mission on Nairobi. This service consists of a group of experts available on a re-imbursable basis for employment by government of agricultural projects.

In addition to the above programmes the Bank provides training at the time of project financing for the success of an organization, competent staff is as decisive as its structure, its financing, or its procedures.

The Bank believes that "If an entity is not already wellstaffed and if capable people can not be found, both existing and new staff must be developed by specialized training that supplements previous formal education." The IBRD's assistance to education and training in member countries takes two forms; loans that are made directly for education and training, and training elements in loans that have goals in other fields, e.g. electric power generation. The loans made in the first form are handled by the Education and training, both in
the amount of finds and in the number of projects. Some 80 loans and credits have been made to more than 48 countries, primarily to help the secondary level vocation institution, universities, teacher training colleges and experimental primary schools.

Another type of training to be provided is to develop human resources needed in projects that are in the fields of agriculture, family planning, transportation and industry. It must be emphasized that no project can be considered to be so strong which needs hardly any improvement through training. Attention must be given to the adequacy of training at all levels in the organization, from apprentices to candidates for management. For it is generally observed that some underdeveloped countries are overstacked with people holding academic degrees but frequently these are in fields unrelated to the technical work most needed for the development of the country.

How much a project has been benefited from training, can not be precisely ascertained. It is matter of judgement, because a cost-benefit calculation is exceedingly difficult and hardly practical. Hence no quantitative evaluations have been made so far. Both the Bank staff and borrower seem to believe that the benefit is generally well-worth the sacrifice in time and funds.

Recently, a study conducted by the International Council for
Educational Development on non-formal education, a project initiated by the IBRD, stressed the need for educational efforts, outside the formal school system, which offer potential for rural development. Even the poorest countries, given a favourable political climate and the determination to build a better future, should be able to mobilize resources and human energies for a considerable expansion of non-formal education in rural areas. Developing countries can move ahead more quickly with non-formal educational programmes with outside help.

**The Economic Development Institute**

One of the most critical element in the economic progress of underdeveloped countries to be the skill brought not only to development programming but to the management of economic affairs in general. The IBRD's chief instrument for fostering this skill is the Economic Development Institute founded in 1955 as a kind of staff college for senior government officials concerned with economic matters. The Bank believes that the shortage of capital is not the sole or even principal obstacle. Inexperience in dealing with economic-financial policy problems is an even more serious handicap.

The first course of EDI started in January, 1956. By that time, the Bank had become aware of the need for improving the efficiency
of economic management in underdeveloped countries, as it learnt that the process of policy formulation in many countries was imperfect and needed improvement. The Bank had realized that the scope and effectiveness of its lending activities would depend to a large extent on economic policies, and in the preparation of programmes and projects the Bank might be asked to finance.

Three basic decisions, listed below, set the pattern that the Institute still follows: First, the IBRD should organize its own programme rather than make arrangements with some established educational institution to provide training; secondly, training should aim at the officials; and finally, the course should aim at the officials who are dealing with economic matters who hold positions of considerable responsibility.

Until 1982, it became clear that, despite rapid growth in educational attention to the general field of economic development, little training was available on the operational aspects of the investment process what has now come to be called Project Analysis. As a result in 1983, the Institute introduced a General Project Evaluation Course, covering projects in the major economic sectors in English and Spanish.

Sectoral courses were introduced by the Institute in the next two years; industrial and agricultural projects courses in 1985. In 1987,
the development course in French was recast to become a general course in project evaluation. Since then, trends towards the expansion of curriculum of sector courses continued.

In 1992, the general development course was thoroughly revised. In the fiscal year 1993, 4 new project courses were introduced. During the 1996, thirteen national course were given overseas.

Almost 5,000 participants have attended the Institute in Washington and overseas since the establishment of the Institute 24 years ago. The overseas training programme has now become the major elements with almost twice as many participants as in EDI-sponsored courses. This increase in the number of courses overseas is in accordance with the recommendations approved in 1994 by the Executive Directors in review of EDI's policies.

Since its establishment in 1955, more than 2,350 officials from member countries have graduated as fellows of the Institute. Over the past decade the Institute has changed from providing macroeconomic course a year to being involved in 26 courses in the current fiscal year (1993-94) of which no less than 25 are oriented towards project and policy analysis in the various economic sectors. Of these, 10 course were offered at the headquarters and 16 in member countries.
In 1964, Edward S. Mason was asked to evaluate the expansion programme and to report on whether the Bank should continue along this path or return to its original role. He concluded that the demand for new courses was too strong to ignore, and the Institute's position, among the source of training too prominent and respectable to permit a retreat to its previous position. In 1970, Prof. A.K. Cairncoross evaluated the programme and concluded that the Institute should continue on the same lines. He noted and approved the experimentation with courses outside the headquarters. He recommended that the Institute should aim at doubling its 1990 level of activity of 6 courses at headquarters and undertake a corresponding expansion of activities outside headquarters.

The importance of the training provided by the EDI derives wholly from the experience of the Bank's operations, 24-year experience of the Institute conveys a sense of reality. No academic institute can demonstrate this much achievement. This is particularly important in guiding the selection by the Institute of the tools of analysis to transmit to its participants and in preserving the staff from scholasticism.

Keeping the view the imbalance between demand and supply of the course, the Institute has started to review the overall demand for the supply of the training it provides. This indicates that in order to
come anywhere near meeting the needs of member countries a much larger expansion in the training programme than hitherto contemplated would be necessary. This can be done by building up the capacity of other institutions serving the needs of the developing countries.

Under this approach, the role of the Institute operations in Washington will be to increasly provide the base for operations in developing countries. The institute will serve as a laboratory for trying out teaching materials and methods, developing new courses and training to the teachers from other institute's expansion programmes during the years ahead should be in developing countries.