Chapter One
CHAPTER-1

THE WORLD BANK GROUP – AN INTRODUCTION

India, the classically known golden bird, had not only been rich in resources but also had literacy and technical superiority when compared to many countries of the world. India had well developed navigation system. Many Indians as well as foreign historians have given detailed account of India’s wealth, health and her foreign trade and networking. India’s intercourse with the world economy has references right from Vedic era (1200 B.C.).¹ The holy book bible also contains references about Indo-Babilonian trade. Dr. Lassen, the well-known German orientalist states “the Egyptians dyed cloth with indigo and wrapped their mummies in India’s Muslins. Other writers like Ptolemy (140 A.D.) Fa-Hien (410 A.D.) and Hien-Tasang etc have also given details of India’s foreign trade.

India was one of the most affluent societies of the world during ancient era. The prosperity encouraged a number of nations to find alternate routes to make their access to India. The European got the permission from the then Kings and Nawabs of India to establish trade links. Gradually they entered into power politics of the country and unfortunately, India became the colony of the British Empire. The
Britishers exploited India, as if ‘the water of Holy Ganga was sucked and was sponged into river Thames.’

Professing the philosophy of “Vasudev–Kutumbakun (The world is our home–Globalization) to the world community India became skeptical towards the world community after experiencing the British advent. Being the colony of British empire, India experienced free trade and unrestricted International Capital Movements under the era of classical gold standard since 1882 –1940. Despite no involvement in the world wars directly, India still experienced the burnt of two wars and the heat of the great depression of 1930’s. Immediately before India’s independence the world community experienced rampant competition and phenomenal unemployment. Tariffs, Quota and exchange controls also became wide spread, leading to almost total collapse of the world economic order.

It was during the early period of second world war when Sir Dextor white of U.S.A. and Sir John Keynes from U.K. have very rightly submitted plan for restructuring the world economy. These proposals largely called for overall growth of the world community together. The establishment of set of institutions was recommended, to ensure a more cohesive world economic order to propel international trade and finance. A system was suggested to set up borrowing facilities for weaker economic players facing temporary balance of
payment crisis and also funds required for long term structural adjustments. This turned into Bretton Wood System laid at “Bretton Wood”, New Hampshire in 1944.

The Bretton wood system has contributed positively to the world economy. To start with Quotas have fallen and Tariffs were gradually reduced to acceptable levels. To get more countries were invited to enter into multilateral trading and promote freer flow of trade.

Given the economic disparity at the international level it was highly desirable to assist weaker countries and ensure prosperity to the world in the long run. Thus to meet this objective the twin institution system was accepted under Bretton Wood System.

It was decided that an institution named International Monetary Fund (IMF) be created embodying mechanism of smooth settlements of International Payments as well as assisting the countries facing balance of payment crisis in the short run. It was further noted that a country in balance of payment crisis may not be able to revive it and grow at its own, therefore, International Bank for Reconstruction and Development (IBRD) popularly known as the World Bank was also established to provide long term assistance for structural changes in the economy and to facilitate faster growth and development.

Despite various shortcomings, the fund has achieved striking success in the field of international monetary cooperation. It has
proved to be of use in promoting its main objectives of growth of international trade, reduction of restrictive practices, easy convertibility of currencies and manage stability of exchange rate. The fund is a truly international institution and has demonstrated dynamism and adaptability to the growing and changing requirements of world economy. It tries to harmonize more effectively the economic relations of advanced and poor nations.

In short, the fund has shown capacity for good work and purposes and many bold ideas have been emanating from it, in view of the improvements and changes in operations, role in achieving its objectives and maintaining better international and monetary relations.
DIAGRAM

INTERNATIONAL MONETARY SYSTEM

THE GOLD STANDARD (1914-18)

THE INTER WAR YEARS (1914-1939)

BRETTON WOODS AGREEMENT (1944)

INTERNATIONAL INSTITUTIONAL ARRANGEMENT

INTERNATIONAL MONETARY FUND (IMF)

WORLD BANK GROUP
(Five Agencies – One Group)

International Bank for Reconstruction and Development (IBRD)

International Development Association (IDA)

International Finance Corporation (IFC)

Multilateral Investment Guarantee Agency (MIGA)

International Centre for the Settlement of Investment Disputes (ICSID)
The World Bank (IBRD) is an intergovernmental institution. Corporate in form, the capital stock is owned by its member governments. Initially only nations that were member of the IMF could be members of the World Bank. This restriction on membership was subsequently relaxed.

**Functions of the World Bank (IBRD)**

Principal functions of the IBRD are set forth in article 1 of the agreement and are presented as below:

1. To assist in the reconstruction and development of the territories of its member by facilitating the investment of capital for productive purposes.

2. To promote private foreign investment by means of guarantee of participation for loans and other investments made by private investors. When private capital is not available on reasonable terms, to make loans for productive purposes out of its own resources.

3. To promote the long term balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members.

4. To arrange loans made or guaranteed by in relation to international loans through other channels so that more useful
and urgent projects, large and small alike will be dealt with. The Bank considers its role to be a marginal one of the supplement and assisting private foreign investment in the member countries.\textsuperscript{4}

A little consideration will show that the objectives of the IMF and IBRD are complementary. Both aim at increasing the level of national income and standard of living of the member nations. Both serve as lending institutions, the IMF for short term and the IBRD for long-term capital. Both aim for promoting the balanced growth of international trade.

**Bank’s Organization**

The IBRD structure is organized on a three tier basis: a Board of Governors, Executive Directors and a President. The board of Governors is the supreme governing authority. It consists of one governor (usually the Finance Minister) and one alternative governor (Usually the Governor of the Central Bank), appointed for five years by each member. The board is required to meet once a year. It reserves to itself the power to decide important matters such as new entries, changes in the Bank’s stock of capital, ways and means of distributing the net income, its ultimate liquidation etc. For all technical purposes however, the board, delegates it powers to Executive Directors for the day-to-day administration.
The Executive Directors elect a President who becomes their ex-officio Chairman holding office during their pleasure. He/She is the chief of the operating staff of the Bank, and subject to the direction of the Executive Directors on questions of policy and is responsible for the conduct of the ordinary business of the Bank and its organization.
BANK’S ORGANIZATIONAL CHART

BOARD OF GOVERNORS

Governor
(Usually Finance Minister)

Alternative Governor
(Usually Governor of Central Bank)

Executive Directors
(Appointed by the Member Countries having largest no. of Shares and rest Elected by other Member, 5 of 24)

PRESIDENT
(Elected by the Executive Directors)
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

Established : 945

Members : 184


IBRD aims to reduce poverty in middle income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products and (non lending) analytical and advisory services. The income that IBRD has generated over the years has allowed it to fund development activities and to ensure its financial strength, which enables it to borrow in capital markets at low cost and offer clients good borrowing terms. IBRD 24-members Board is comprised of 5 appointed and 19 elected Executive Directors who represent 184 member countries.

THE ROLE OF IBRD

Countries with a per capita income less than $5,115 that are not IDA – only borrowers are eligible to borrow from IBRD. Countries with higher per capita income may borrow under special circumstances or as part of graduation strategy. It is important to note however that the amount that IBRD is prepared to lend to eligible countries at any given time depends on their creditworthiness as individual IBRD
borrowers. Thus, countries may be eligible to borrow but may not access to IBRD resources because of poor credit worthiness. In addition, net IBRD loans outstanding to any individual borrower, irrespective of borrower creditworthiness, currently may not exceed $13.5 billion. Seventy five percent of people who live on less than $1 a day live in countries that receive IBRD lending. The borrowers typically are middle-income countries that enjoy some access to private capital markets. Some countries are eligible for IDA lending as a result of their low per capita income but they are also creditworthy for IBRD borrowing. These countries are known as "blend borrowers". IBRD provides important support for poverty reduction by helping clients to gain access to capital in larger volumes on good terms with longer maturities and in a more sustainable manner than the market provides.

IBRD is a rated financial institution with same unusual characteristics. Its shareholders are sovereign governments. Its member borrower have a voice in setting its policies. IBRD loans (and IDA credits) typically are accompanied by non lending services to ensure more effective use of funds. Unlike commercial banks IBRD is driven by development impact rather than profit maximization.

**IBRD KEY FINANCIAL INDICATORS:**

(Millions of Dollars)
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<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income</td>
<td>1,144</td>
<td>1,924</td>
<td>3,021</td>
<td>1,696</td>
<td>1,320</td>
</tr>
<tr>
<td>Loans Outstanding</td>
<td>118,866</td>
<td>121,589</td>
<td>116,240</td>
<td>109,610</td>
<td>104,401</td>
</tr>
<tr>
<td>Total assets</td>
<td>222,748</td>
<td>227,454</td>
<td>230,062</td>
<td>228,910</td>
<td>222,008</td>
</tr>
<tr>
<td>Total equity</td>
<td>29,570</td>
<td>32,313</td>
<td>37,918</td>
<td>35,463</td>
<td>38,588</td>
</tr>
</tbody>
</table>

THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

IDA established in : 1960

Members : 165

Fiscal 2005 Commitments : $8.7 billion 160 new operations in 66 countries

The International Development Association plays a key role in supporting the bank’s poverty reduction programmes. IDA assistance is focused on the poorest countries to which it provides interest free loans and other services. IDA depends on contribution from its healthier member countries – including some developing countries for most of its financial resources.

IDA was established in 1960, as an affiliate of the World Bank. It started providing finance to less developed members on a soft loan basis i.e. on terms imposing a lower interest and servicing charge on loans than what the conventional bank charges.

It provides development finance on easy terms to less developed members countries. It also promoted economic development, increased productivity and thus raised standard of living in the under developed areas.

Contributions to IDA enable the World Bank to provide approximately $8 billion to $9 billion a year in highly concessional
financing to the world’s 81 poorest countries. IDA’s interest-free credits and grants are vital because these countries have little or no capacity to borrow on market terms. In most of these countries, the great majority of people live on less than $1 or $2 a day. IDA’s resources help support country-led poverty reduction strategies in key policy areas, including raising productivity, providing accountable governance, building a healthy private investment climate, and improving access to education and health care for poor people.

THE ROLE OF IDA

IDA is the world’s largest single source of concessional financial assistance for the poorest countries, and it invests in basic economic and human development projects. Eligibility for access to IDA resources is governed by two basic criteria, a country’s relative poverty (as measured by per capita income) and its degree of credit worthiness for IBRD resources. The operational income cutoff for IDA eligibility in fiscal 2003 was a per capita gross national income of $875. The amount of IDA resources that countries depends or the equality of their policies to promote growth and reduce poverty which are access on are annual basis. In exceptional circumstances IDA extends eligibility to countries that are above the income cutoff but are not fully credit worthy to borrow from IBRD, such as small island economies.
IDA recipient countries face complex challenges in striving for progress towards the Millennium Development Goals (MDGs). Policy priorities include strengthening the fight against the spread of communicable diseases, including HIV/AIDS, building a healthy investment climate as a prerequisite for private sector investment promoting gender equality and improving the quality of basic education and poor access to it.

INTERNATIONAL FINANCE CORPORATION (IFC)

Established : 1956

Members : 178

Fiscal 2005 Commitment : 5.4 billion dollars 236 projects in 67 countries.

The International Finance Corporation was established in July 1956 with the specific object of providing finance to the private sector. Though it is affiliated to the World Bank. It is a separate legal entity with a separate fund and functions. Members of the World Bank are eligible for its membership.

OBJECTIVE

International Financial Corporation IFC’s objective is to help economic development by encouraging the growth of productive
private enterprise in its member nations, particularly in the underdeveloped areas.

**IFC KEY FINANCIAL INDICATORS FISCAL 2001-2005**

Millions of Dollars (unless otherwise indicated)

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<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>241</td>
<td>161</td>
<td>528</td>
<td>982</td>
<td>1953</td>
</tr>
<tr>
<td>Net Income</td>
<td>345</td>
<td>215</td>
<td>487</td>
<td>993</td>
<td>2015</td>
</tr>
<tr>
<td>Liquid assets, net of associated derivatives</td>
<td>13,258</td>
<td>14,532</td>
<td>12,952</td>
<td>13,055</td>
<td>13,325</td>
</tr>
<tr>
<td>Loan and equity investments, net</td>
<td>8,696</td>
<td>7,963</td>
<td>9,377</td>
<td>10,279</td>
<td>11,489</td>
</tr>
<tr>
<td>Borrowing withdrawn and outstanding</td>
<td>15,457</td>
<td>16,581</td>
<td>17,315</td>
<td>16,254</td>
<td>15,359</td>
</tr>
<tr>
<td>Total Capital</td>
<td>6,095</td>
<td>6,304</td>
<td>6,789</td>
<td>7,782</td>
<td>9,798</td>
</tr>
<tr>
<td>Return on average net assets (%)</td>
<td>0.6</td>
<td>0.6</td>
<td>1.8</td>
<td>3.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Return on average net worth (%)</td>
<td>4.1</td>
<td>2.7</td>
<td>8.2</td>
<td>13.7</td>
<td>22.6</td>
</tr>
<tr>
<td>Cash and liquid investments as a percentage of next 3 year’s estimated</td>
<td>101</td>
<td>109</td>
<td>107</td>
<td>116</td>
<td>142</td>
</tr>
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<td></td>
<td>2001</td>
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<tr>
<td>net cash requirements (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt-to-equity ratio</td>
<td>2.6:1</td>
<td>2.8:1</td>
<td>2.6:1</td>
<td>2.3:1</td>
<td>1.8:1</td>
</tr>
<tr>
<td>Capital adequacy ratio (%)</td>
<td>48</td>
<td>49</td>
<td>45</td>
<td>48</td>
<td>50</td>
</tr>
<tr>
<td>Total reserve against losses on loans to total disbursed loan portfolio (%)</td>
<td>16.0</td>
<td>21.9</td>
<td>18.2</td>
<td>14.0</td>
<td>9.9</td>
</tr>
</tbody>
</table>


*Note: 2005, Income after Expenditures for Technical and Advisory Services*
THE MULTILATERAL INVESTMENT GUARANTEE AGENCY
(MIGA)

Established : 1988

Members : 165

Cumulative guarantees issued : $14.7 billion

Fiscal 2005 guarantees issued : $1.2 billion

*Amounts include funds leveraged through the Cooperative Underwriting Program.

Concerns about investment environments and perceptions of political risk often inhibit foreign direct investment—a key driver of economic growth—in developing countries. MIGA addresses these concerns by providing political risk insurance (guarantees), offering investors protection against non-commercial risks such as expropriation, currency inconvertibility, breach of contract, war and civil disturbance. MIGA also provides advisory services to help countries attract and retain foreign investment, mediates investment disputes to keep current investments intact and remove possible obstacles to future investment, and disseminates information on investment opportunities to the international business community.
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<tr>
<th></th>
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<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>493</td>
<td>484</td>
<td>381</td>
<td>256</td>
<td>241</td>
</tr>
<tr>
<td>Operating income/operating capital (%)</td>
<td>653</td>
<td>702</td>
<td>766</td>
<td>811</td>
<td>830</td>
</tr>
<tr>
<td>Operating capital /5.0</td>
<td>7.5</td>
<td>6.9</td>
<td>5.0</td>
<td>3.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Net exposure</td>
<td>3157</td>
<td>3202</td>
<td>3204</td>
<td>3259</td>
<td>3138</td>
</tr>
<tr>
<td>Operating capital/net exposure (%)</td>
<td>20.7</td>
<td>21.9</td>
<td>23.9</td>
<td>24.9</td>
<td>26.4</td>
</tr>
<tr>
<td>Five largest exposures (%)</td>
<td>1,002</td>
<td>1,006</td>
<td>912</td>
<td>923</td>
<td>834</td>
</tr>
<tr>
<td>Five largest exposures /net exposure (%)</td>
<td>31.7</td>
<td>31.4</td>
<td>28.5</td>
<td>28.3</td>
<td>26.6</td>
</tr>
</tbody>
</table>
Net exposure in IDA-eligible countries

Net exposure in IDA/net exposure (%)  
934 1,113 1,255 1,139 1,341  
29.6 34.8 39.2 34.9 42.7

Note: Shareholders equity plus net insurance portfolio reserves,  
b. Aggregate of five largest country net exposures.  
* Fig. In US$  

THE INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES (ICSID)  
Established : 1966  
Members : 152  
Total Case Registered : 184  
Fiscal 2005 Cases Registered : 25  

ICSID helps encourage foreign investment by providing international facilities for conciliation and arbitration of investment disputes thereby helping to foster an atmosphere of mutual confidence
between states and foreign investors. Many international agreement concerning investment refer to ICSID arbitration facilities. ICSID also conduct research and publishing activities in the areas of arbitration law and foreign investment law.
WORLD BANK REGIONS, COUNTRY OFFICES, AND BORROWER ELIGIBILITY

Source: THE WORLD BANK ANNUAL REPORT 2005
WORLD BANK PROGRAMS

Through its loans, policy advice and technical assistance, the World Bank supports a broad range of programs aimed at reducing poverty and improving living standards in the developing world. Effective poverty reduction strategies and poverty, focused lending are central to achieving these objectives. Bank programs give high priority to sustainable social and human development and strengthened economic management, with a growing emphasis on inclusion, governance, and institutions building.5

No country will grow economically and reduce poverty while its people cannot read or write, or while its people struggle with malnourishment and sickness. As we enter the new millennium, hundreds of millions of people lack the minimally acceptable level of education, health and nutrition that many countries would not accept for granted. This is not just an individual moral issue; it is a global economic disparity and a major impediment to the reduction of poverty.

Accordingly, the Bank directs much of its assistance where the impact will be greatest or basic social services such as reproductive and maternal health care, nutrition, early childhood development programs that target the rural poor and women. As the largest single investor in social sector, the Bank has provided loans totaling over $45
billion for more than five hundreds projects for human development in hundred countries.

The Bank also helps governments to restructure social security and pension systems and establish social safety nets to protect those, most at risk from being hurt by the effects of economic restructuring. In addition to lending money, the Bank provides advice through services such as in-depth country assessments pertaining to poverty, country assistance strategy and public expenditure reviews so that governments can set sound long term strategies for pursuing economic growth.

**PROTECTING THE ENVIRONMENT**

Poverty reduction is intrinsically linked to environment and social sustainability. Availability means a number of things, but first and foremost it means that sources are enhanced or protected rather than damaged or depleted as part of the development process.

Developing countries are much more vulnerable to environmental degradation than industrial countries. Problems such as air and water pollution, climate change, loss of biological diversity, and deforestation are threatening their ability to meet the basic human needs of their people: adequate food, clean water, safe shelter, and a healthy environment.
The Bank goes to great length to ensure that its projects do not harm the natural environment. All projects are screened to determine whether they pose environmental risks. Environmental assessments are undertaken on projects that may be harmful, and the Bank includes special measures in such projects to avoid environmental damage.

Environmental concerns have been synthesized into Bank activities, because experience has shown that it is more cost-effective to prevent environmental damage than to clean it up later.

To enhance these efforts, the Bank works in partnership with other development agencies, non-governmental organizations, and community groups to gain the benefit of their knowledge and experience. The Bank works with IUCN (The World Conservation Union), the Nature Conservancy, the Worldwide Fund for Nature, and many other organizations to help facilitate programs to protect rivers, forests and coastal areas. The Bank is also one of the implementing agencies of the Global Environment Facility an organization that is playing a key role in addressing global environmental priorities such as biodiversity, climate change, Ozone depletion and pollution of international waters.

**Stimulating Private Sector Growth**

The private sector is the engine of long term growth. A stable and open business climate with access to credit and sound financial
systems is essential for private entrepreneurs. This helps them to emerge, for business to flourish and for local people and inventors from abroad to find the confidence to invest and create wealth, income, and jobs. The World Bank is helping client governments throughout the developing world to create the necessary conditions for the revival and expansion of Private Sector investment. These include: Putting in place the basic laws, regulations and local institutions that private investors need and to ensure clear enforcement of contractual obligations.

Building the physical infrastructure (such as transportations, dams etc) and developing the critical technological and information base necessary in the global market place. The Bank also help in developing local capital market and banking systems. In additions to its loans and technical assistance, the World Bank also offers guarantee designed to mitigate investment risks, especially for long term debt financing.

They are particularly important for encouraging private financing for infrastructure – where more than $250 billion a year in investment is needed to meet the Bank clients country needs for the next decade. These guarantees are intended to supplement reform programs and complement the risks mitigation benefits offered to the private sector by IFC and MIGA.
Since its inception in 1956, the Bank private sector affiliate, the IFC, has committed more than $29 billion of its own funds and has arranged $19.2 billion in syndications and underwriting for 2,446 companies in 136 developing countries. The IFC also helps countries establish for privatization.

MIGA’s political risk guarantee also support Private Sector growth by giving investors confidence to invest in endeavours that might otherwise look too risky. MIGA has covered investment projects in more than eighty-five developing countries, providing more than $7 billion in guarantee and facilitated and estimated $36 billion in foreign direct investment in different countries. MIGA also provides technical assistance to governments, and serve investors and client countries by providing current information or investment opportunities through innovative web portals.

PROMOTING ECONOMIC REFORM

As economic distortions exacerbate partly, the Bank helps its client governments improve their economic and social policies so as to increase efficiency and transparency, promote stability and bring about equitable economic growth. The Bank provides funding, policy advice and technical assistances in support of reform efforts to cut budget deficits, reduce inflation, liberalize trade and investments, privatize state owned enterprises, establish sound financial systems, strengthen
judicial system and ensure property rights. These reforms helped attract foreign private capital, generate domestic savings and investment and enabled governments to provide effective social services.

However, because reform measures can lead to unemployment as unproductive enterprises are closed, and to increased prices when inefficient governments subsidies are cut, reforms can adversely affect poor and vulnerable people in the short term. To address these concerns, the Bank support for reforms often included funding for safety net programs to help protect the poor or to keep vulnerable people from slipping into deeper poverty.

High levels of debts – owed mostly to governments is being increasingly recognized as a reverse constraint on the ability of poor countries to undertake fundamental/reforms.

To help ensure that economic reform efforts are not put at risk by high debt and debt service burdens, in 1996 the Bank and International Monetary Fund (IMF) launched the Highly Indebted Poor Countries Initiative (HIPC). The initiative represents a commitment by the international community, including all creditors, to act together in a coordinated and concerted fashion to reduce the debt of very poor countries to sustainable levels. To qualify for HIPC debt relief, a country must be eligible for IDA credits, face an unsustainable debt
burden, and demonstrate a commitment to economic reform. Debt relief granted under the initiative based on debt sustainability within a context of economic growth and poverty reduction. So far, thirteen countries have qualified for debt relief under the enhanced initiative that will amount to approximately $23 billion.

**FIGHTING CORRUPTION**

For governments to be effective, they must have the trust and confidence of the people they serve. Corruption has a devastating impact on trust in government and diminishes the effectiveness of public policy. It impedes investor confidence and has a negative impact on foreign investment. Corruption also reduces the effectiveness of aid and threatens both political and grass root support for donor assistance.

While citizens and governments must themselves lead the fight against corruption, the Bank has been assisting a number of countries with their anti corruption efforts. The Bank has conducted surveys to determine the extent and character of corruption in various countries. It has organized workshops, courses and training for government officials and members of civil society. But the most far-reaching efforts of the Bank are making countries identify and implement the policy and institutional reforms that can minimize opportunities for corruption. These reforms include better financial regulation, supervision and
disclosure; greater accountability in the private sector through the confirmation of shareholder and credit rights.

In total, the Bank now has more than 700 activities dealing with public sectors institutional reforms in more than 90 countries, and more than two dozen countries have requested assistance to deal specifically with corruption.

ASSISTING COUNTRIES AFFECTED BY CONFLICTS

Conflict and violence are among the world’s most pressing developmental problems, affecting many of the world’s poorest countries. The Bank in facilitating the transition from dependence on relief to sustainable economic growth. It also helps in improving the coordination of poor conflict reconstruction and recovery assistance.

The Bank has focused not only on rebuilding infrastructure, but also on programs to promote economic adjustment and recovery, address social sector needs, and build institutional capacity. Projects designed to assist in mortifying, demobilization and reintegration of ex-soldiers displaced populations. The Bank is working around the globe – in places as diverse as the Balkans, Burundi, Cambodia, East Timor, Haiti and Sierra Leone – and with a wide range of partners to help rebuild economies and bring stability and a better future to the people whose lives has been affected by conflict.
LEVERAGING INVESTMENT

The World Bank's unique partnership with its client governments and its role in helping them shape their plans and priorities, equip it to play a strong coordinating role in leveraging funds for development.

IBRD and IDA loans and credits typically cover less than half of the total investment costs of a project. The remaining is provided by client government themselves or by co-financiers. In this fashion the resources that the Bank raises from bondholders and shareholders are multiplied in both scope and effectiveness. Co-financing arrangements with other donors are an extremely effective means not only for mobilizing additional resources, but also for facilitating coordination among development agencies. Co-financiers include other development banks, the European Union, National Aid Programs and export agencies. The Bank Chairs consultative group meetings for many of its client countries, at which officials from donor countries meet with chief policy makers from borrowing countries to discuss overall economic priorities and strategies and to pledge support.

STRATEGY AND ACTION

The World Bank Consists of IBRD and IDA, IFC, MIGA and ICSID whose common mission is to fight against poverty. The Bank comprises 184 shareholder countries. To assist its client countries in
achieving sustainable development, it harness resources and forms partnership with others, including development lending institutions and Civil Society Organizations (CSOs).

Development involves changes. It requires learning about what works and what does not work in particular circumstances and then building the capacity for applying that knowledge throughout an economy. By taking what has been learned and using the available instruments and resources, the Bank can achieve outcomes that are appropriate to the challenges at hand. It is with decades of experience that the Bank has recognized several common factors associated with overall progress in development. These factors— the basis for the Bank’s strategy are as following:

- **An Active State:** Good governance in both the public and private sectors influences the environment where contracts are enforced and markets can function; basic infrastructure works; there are provisions for adequate health, education and social protections; and people are able to participate in decisions that affect their lives.

- **Empowerment:** Ensure that all people have the ability to shape their own lives, by providing opportunity and security and by fostering effective participation and social inclusion.
ECONOMIC GROWTH

It is essential because countries that have reduced poverty most effectively are those that have grown the fastest. There has been no example of successful development without sustained periods of high per capita growth of output.

- It is necessary to have a vital ‘private sector’ to drive sustained economic growth with small and medium enterprises playing particularly an important role in generating employment opportunities for poor people.

- Vibrant External Policy: Policy that is rational and appropriate to the country is essential as the removal of barriers to international trade so that developing country exports can contribute growth.

- Finally the country and society need to have ownership of the development agenda to reflect the country specific circumstances and political economy.

THE BANK’S STRATEGY AND THE MULTISECTORAL NATURE OF THE MILLENIUM DEVELOPMENT GOALS

The twin of the Bank Strategic framework are critical to success in achieving sustainable poverty reduction and helping countries meet the goals. Different groups of client countries have different needs.
Working with the Bank on the MDGs is the priority in most low-income countries. The middle income clients more often seek to work with the Banks potential commitments and it own client driven from work program. The discussion intensified among networks, country directors and clients to enhanced this alignment of country goals and MDGs agenda. It is clear that some of the goals are unlikely to be achieved in certain countries without a major effort by developing countries, developed countries, and the entire development community.

THE MILLENIUM DEVELOPMENT GOALS (MDGs)

The MDGs are the frame of reference for the Bank’s work in partnership with other international institutions. The MDGs are a set of goals with specific targets for poverty reduction to be achieved between 1990 & 2015, and they represent an unprecedented level of world consensus on what is needed for sustainable poverty reduction. The goals are listed as below.

1. **Eradicate Extreme Poverty And Hunger**

   Halve the number of people in extreme poverty, and the number of people who suffer from hunger by 2015.

2. **Achieve Universal Primary Education**

   Ensure by 2015 that all children will be able to complete a full course of primary schooling.
3. **Promote Gender Equality And Empower Women**

Eliminate gender disparity in primary and secondary education by 2015 and in all levels of education by 2015.

4. **Reduce Child Mortality**

Reduce by two thirds the under five mortality rate by 2015.

5. **Improve Material Health**

Reduce by three quarters the maternal mortality rate by 2015.

6. **Combat HIV/AIDS, Malaria And Other Diseases**

Halt the spread of HIV/AIDS, malaria, and other major diseases, and begin to reverse the spread, by 2015.

7. **Ensure Environmental Sustainability**

Halve the preparation of people without sustainable access to drinking water by 2015.

8. **Develop A Global Partnership For Development**

Further develop an open, rule-based, predictable non-discriminatory trading and financial system.⁷

**PARTNERSHIPS: INCREASING THE IMPACT OF DEVELOPMENT EFFORTS**

Partnership has become a core element of the Bank’s business approach. By working with partners in the international community to identify the area, each has a comparative advantage; the effect of each
development dollar can be magnified. With careful attention to what works in a particular situation, proven approaches can be brought together and appropriate projects carried out to produce better results. At the same time, the growing importance of partnerships in the Bank’s work makes it important to ensure strong alignment of new partnerships with The Bank’s strategies/priorities and with country driven development strategies.

INSTITUTIONAL PARTNERSHIPS:

The Bank partners with other international institutions such as the International Monetary Fund (IMF), the U.N., other Multinational Development Bank, OECD, the European Union (EU) and the WTO.

INTERNATIONAL MONETARY FUND (IMF)

The Bank’s foremost institutional alliance is with the IMF with which it collaborates on a number of initiatives aimed at reducing poverty.

The Bank and the IMF further strengthened their collaboration in fiscal 2003. Each organization concentrates on its area of comparative advantage. The IMF is responsible for the dialogue with country authorities on macro economic issues and the World Bank takes the lead on social and structural issues.

In addition to the continuous delivery of debt relief to eligible countries under the Heavily Indebted Poor Countries (HIPC)
Initiatives, the executives boards of the two institutions approved the achievement of completion point stains for two HIPC countries during fiscal 2003.

UNITED NATIONS (U.N)

In fiscal 2003, the Bank–UN partnership advanced in its commitment to a coordinated approach for poverty reduction strategies. This has involved identifying complementary between the MDGs and the PRSP process. The Bank and the United Nations Development Group have an open dialogue on the harmonization of policies, procedures and practices. Attention is now being placed on better development effectiveness and deeper country ownership.

The Bank has supported the parallel process taking place at intergovernmental level. In 2002 meetings of the Bank’s Development Committee, ministries called for a focus in the global monitoring of actions and the policies to achieve the MDGs. Many of the Bank’s senior managers are involved in the ongoing dialogue on these issues between the U.N. and the Bank, dialogue that strengthens the understanding of respective roles and responsibilities in carrying out the development agenda.

The increasingly complex political, social, economic and international dimensions of conflict adversely affect the ability of countries to work towards the MDGs. The U.N. and the Bank, in close
partnership are pursuing ways to strengthen cooperation among themselves and other key shareholders.

**MULTILATERAL DEVELOPMENT BANKS**

The Bank’s collaboration with other multilateral development banks, such as the African Development Bank, the Asian Development Bank, Inter American Development, the European Bank for Reconstruction and Development and the Islamic Development Bank, remained strong and intensified significantly in several areas.

**ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) AND ITS DEVELOPMENT ASSISTANCE COMMITTEE (DAC)**

The Bank’s partnership with OECD accelerated in May 2000 when the heads of the two institutions signed a joint statement of cooperation. Since that time the two institutions have established clear focal points for proactive collaboration.

The Bank and OECD work together on the OECD/DAC agenda, aligning donor support for the Comprehensive Development Framework. It also attempts sharpen the focus on the results, improving harmonization of donor policies and practices while dealing with the problems of low-income countries under stress.
EUROPEAN UNION

The European Union is a natural partner for the World Bank Group. Its multilateral aid program is managed by the European Commission.

The EU provides 55% of the total official development assistance in the world— and is the developing world’s most important trading partner, absorbing 21 percent of its exports and extending preferential arrangements to developing regions. The EU works towards political and economic reform and poverty reduction in the world, especially the third world countries with which it has active trade, investments assistance and migration links. Thus collaboration between the EU and the World Bank Group is obvious and has expanded on many fronts in recent years.

WORLD TRADE ORGANIZATION (WTO)

Strengthening the Bank’s capacity on trade and establishing the new Trade Department has enabled partnership with the WTO, based on objectives of open trade and development. An initial visit to the WTO by the president of the World Bank led to the preparation of a strategy for institutional collaboration, which focuses on (a) cooperation in the sharing of policy research and knowledge (b) joint work in implementing the integrated framework for Technical Assistance for the least developed countries (c) cooperation in the
delivery of trade training and capacity building by the World Bank Institute (WBI) and the WTO, and (d) Cooperation in promoting a stronger global dialogue on trade and development.

**ACTION ON COUNTRY PRIORITIES**

In carrying out its strategy the Bank tailors its approach to each country’s needs. The Bank action are centered on the country’s vision for development, a good diagnosis of the policies proposed, a Bank program to support the vision, and a focus on result. This translates into specific approach for low-income countries, low-income countries under stress, and middle – income countries.

**COUNTRY ASSISTANCE STRATEGIES (CAS)**

Building on and incorporating existing country knowledge, the CAS is the business plan that guides Bank Group activities in client country. Prepared in consultation with the government, development partners and other stakeholders. The CAS set out a program of lending and of knowledge and advisory services linked to the country’s development strategy as defined in a poverty reduction strategy programme, a Comprehensive Development Framework, or other country owned process.⁹

**LOW INCOME COUNTRIES**

Carrying out the Bank’s two pillars strategy in low income countries, where the vast majority of the World’s poorest people live,
present special challenges. The investment climate in these countries may not be conducive to sustainable growth. Limited institutional, human and physical resources can keep poor people away from participating in development.

A key tool in the Bank support for low income countries in the PRSP which was introduced, result oriented, comprehensive road maps that are based on broad consultation with internal and external partners and stakeholders. PRSPs are intended to serve as the framework for domestic policies and cross-sectoral programs to reduce poverty and for development aid.

The process emphasizes country’s ownership in framing plans that reflect each country’s special circumstances and needs. The Bank plays an active role in helping clients strengthen the role of stakeholders in the PRSP process. The Bank also encourages countries to integrate the MDGs into their strategy paper presentation, considering the cross-sectoral actions needed to achieve the goals. This approach will ensure that the tradeoffs inherent in achieving the MDGs are addressed by country strategies.

Poverty Reduction Strategy Programmes – based IDA assistance to low income countries includes Poverty Reduction Support Credits, which are designed to support country-owned poverty reduction priorities. These credits focus on building government capacity and
institutions, particularly those serving poor people. There is also a new provisions to allow the use of IDA funds for projects in the private sector.

LOW INCOME COUNTRIES UNDER STRESS (LICUS)

In an era of performance based lending, the Bank and other donors have realized that many of the poorest countries have been left behind. They have recognized the need to engage much more resources actively in low-income countries with the most chronically weak policy and governance environments. In June 2002, the Task Force on low-income countries under stress recommended to the Board of Executive Directors that the Bank should work in close cooperation with its partners to expand and improve its analytical work, invest in capacity building and identify innovative project mechanisms to improve governance and deliver basic social services on LICUS.

Work on the LICUS Task Force recommendation began in fiscal 2003 and is centered at the country level, as each country has different defining characteristics and each with own speed. At the country level, LICUS principles have been incorporated in CAS. Examples of the strategies include a highly selective programs in Angola that focuses on natural resource revenue management; demobilization of combatants and community – driven social action; activities to rebuild the knowledge base and donor government dialogue at Haiti,
completion of multi-donor mission in the Central African Republic demonstration projects for the provision of public goods in Somalia; policy dialogue and capacity building in support of the peace process in Sudan; and sectoral programs that combines top down public finance management with community – driven initiatives to support improved governance in Tajikistan etc.

MIDDLE – INCOME COUNTRIES

Poverty remains a challenge for middle-income countries too, which are home to three quarters of the world’s poor people. These countries face significant and diverse challenges.

The crucial rules for the Bank here are to assist the countries with reforms that improve the investment climate, support economic restructuring and investment while their access to long-term capital is limited. Bank helps them to reduce the remaining concentrations of poverty, and mitigate their vulnerability to economic shocks, and support country-level action on the global public goods agenda. The bank continues to help middle income countries to achieve growth in the private sector by helping them complete fundamental market – opening reforms that make the country more attractive for investment and by supporting ensuring structural and social reforms. Towards these ends the Bank uses a number of tools to advance its policy
dialogue with countries and to continue engagement with active borrowers.

One of such tools is more effective use of diagnostic reports, which deepen the understanding of a country’s development priorities and the cross-sectoral links and implications for reducing poverty. Furthermore, the Bank offers partial credit and partial risk guarantee to mobilize private sector financing for individual projects. The Bank’s support for financial sector developments draw on the complementary role of IFC and MIGA.

**THE WORLD BANK – LENDING INSTRUMENTS**

The World Bank Group is an international organization of more than 180 member countries. Its objective is poverty reduction. It collaborates with other organizations to help client countries for active sustainable and equitable growth. The Bank Group offers an array of customized services— including loans, technical assistance, and advice— to its developing and in transition member countries.

The lending instruments of the International Bank for reconstruction and development (IBRD) and the International Development Association (IDA), which together are the World Bank provides loans and development assistance to middle income countries and creditworthy lower income countries. IDA provides low interest
loans and other services to the poorest countries. IBRD also makes to borrowers is a number country, with the country guarantee.

The other members of the World Bank offer different kinds of services. The International Finance Corporation (IFC) finances private sector ventures in developing countries, in partnership with private investors. The Multilateral Investment Guarantee Agency (MIGA) encourages direct foreign investment in developing countries by providing guarantees against non-commercial risk to foreign investors. And the International Center for the Settlement of Investment Disputes (ICSID) provides facilities for the settlement of investment disputes between foreign investors and their host countries.

The Bank has two basic types of lending investments: Investment Loans and Adjustment loans. Investment loans have a long-term focus (5 to 10 years) and finance goods, work and services in support of economic and social development projects in a broad range of sectors. Adjustment loans have a short-term focus (1 to 3 years) and provide quick-disbursing external financing to support policy and institutional reforms. Both investment and adjustment loans are used flexibly to suit a range of purposes and are occasionally used together in hybrid operations. Loans are made as part of the comprehensive lending program set out in the country Assistance Strategy (CAS), which tailors Bank assistance (both lending and non-lending services)
to each borrower’s development needs and the Bank’s comparative advantage. The CAS incorporates projects and programs with the greatest potentials to reduce poverty and further the country—development objectives.\textsuperscript{10}

Lending operations are conducted in several phases. The borrowers identify and prepare the project and the Bank reviews its viability. During loan negotiations, the Bank and borrower agree on indicators, implementation plan, and schedule for disbursing loan funds. Once the Bank grants the loan and it becomes effective, the borrower implements the projects and programs according to the terms agreed upon with the Bank. The Bank supervises implementation and evaluates results.

All loans are governed by the world Bank’s operational policies, which aim to ensure the Bank—financed operations are economically, financially, socially and environmentally sound. Fiduciary policies and procedures govern the use of project related funds, particularly for the procurement of goods and services. Safeguard policies help to prevent unintended adverse consequences on third parties and the environment.

**INVESTMENT LENDING**

Investment loans provide financing for a wide range of activities aimed at creating the physical and social infrastructure necessary for poverty alleviation and sustainable development.
The nature of investment lending has evolved over time. Originally focused on hardware engineering services, and bricks and mortar investment lending has come to focus more on institution building, social development, and public policy infrastructure needed to facilitate private sector reduction involving private contracts in new housing construction, for example to rural development (formalizing land tenure to increase the security of small farmers); water and sanitation (improving the efficiency of water utilities); natural resource management (providing training in sustainable forestry and farming); post conflict reconstruction (reintegrating soldiers into communities); education (promoting the education of girls); and health (establishing rural clinics and training health care workers).

**DISBURSEMENT:**

Funds are disbursed against specific foreign or local expenditure related to the investment project including pre-identified equipment, materials, civil works, and technical and consulting services, studies and incremental recurrent costs. Procurement of these goods, works and services is an important aspect of project implementation. To ensure satisfactory performance, the loan agreement may include conditions of disbursement for specific project components.¹¹

Innovation loans were recently introduced to provide more innovation and flexibility. Other instruments tailored to borrower
specific needs technical assistance loans, financial intermediary loans and emergency recovery loans

**SPECIFIC INVESTMENT LOAN (SIL)**

Specific Investment Loan (SIL) supports the creation, rehabilitation, and maintenance of economic, social and institutional infrastructure. In addition, SIL may finance consultant services and management and training programs.

The SIL is a flexible lending instrument appropriate for a broad range of projects. SIL helps to ensure the technical, financial, economic, environmental, and institutional viability of a specific investment. They also support the reform of policies that affect the productivity of the investment.

**SECTOR INVESTMENT AND MAINTENANCE LOANS (SIMLs)**

Sector Investment and Maintenance Loans (SIMLs) focus on public expenditure programs in particular sector. They aim to bring sectoral expenditures, policies, and preference in line with a country development priorities by helping to create an appropriate balance among new capital investments, rehabilitation, reconstruction and maintenance. They also help the borrower development the institutional capacity to plan, implement and monitor the expenditure or investment program.
SIMs typically involve agreement on the composition of sector investment programs and on sectoral policy reforms necessary for the programs success. They also involve strengthening the institutions that will carry out the programs.

The SIM is most appropriate where a sector expenditure program needs expensive coordination particularly if the program involves a large share of donor-financed investments. Therefore, SIM typically involve coordinated efforts among the multilateral and bilateral donors providing assistance to the sector.

**ADAPTABLE PROGRAM LOAN (APL)**

Adaptable Program Loans provide phased support for long term development programs. They involve a series of loans that build on the lessons learned from the previous loan(s) in the series.

**SPECIAL DESIGN FEATURES**

APLs involve agreement on (1) the phased long term development program supported by the loans (2) Sector policies relevant to the phase being support and (3) Priorities for sector investments and recurrent expenditures. Progress in each phase of programs is reviewed and evaluated as necessary, before the subsequent phase can be initiated.

APLs are used when sustained changes in institutions, organizations or behaviour are a key to successfully implementing a
program. They can be used to support a phased program of sector restructuring or system reform in the power, water, health, education, and natural resources management sectors, where times is required to build consensus and convince diverse factors of the benefits of politically and economically different reforms.

**LEARNING AND INNOVATION LOAN (LIL)**

The Learning and Innovation Loan (LIL) supports small pilot type investment and capacity building projects that, if successful could lead to larger projects that would mainstream the learning and results of the LIL.

LIL do not exceed $5 million and are normally implemented over 2 to 3 years – a much shorter period than most Bank investment loans. All LILs include an effective monitoring and evaluation system to capture lessons learned.

LILs are used to test new approaches. Often in start up situations and with new borrowers. LILs may be used to build trust among shareholders, test institutional capacity and pilot approaches in preparation for larger projects, support locally based development initiatives and launch promising operations that require flexible planning based on learning from initial results.
TECHNICAL ASSISTANCE LOAN (TAL)

The Technical Assistance Loan (TAL) is used to build institutional capacity in the borrower country. It may focus on organizational arrangements, staffing methods and technical, physical or financial resources of key agencies.

TALs require arrangement on specific action programs to strengthen organization and on terms of reference for the appointment of consultants and local counterparts.

TALs are used to build capacity in entities directly concerned with implementing policies, strategies, and reforms that promote economic and social development. They also build capacity related to public sector reform and to the preparation. Implementation and maintenance of investment or adjustment operations by supporting specific tasks related to their preparation or implementation.

FINANCIAL INTERMEDIARY LOAN

Financial Intermediary Loans provide long-term resources to local financial institutions and to finance real sector investment needs. The financial institutions assume credit risk on each such project.

Eligibility for FIL requires a satisfactory macroeconomic and sector framework. The FIL supports financial sector reforms–interest rate policies, subsidies, measures to enhance financial system competition, institutional development of financial intermediaries –
that have a direct and substantial bearing on the operational efficiency or financial intermediaries. FIL may accompany adjustment that address financial sector policy issues and certain technical assistance components. The borrower may pass on Bank funds to a financial intermediary either a loan or equity. The financial intermediary in turn may pass on Bank funds to sub-borrowers as sub-loans or equity, to finance projects that aim to increase the production of goods and services. To ensure satisfactory performance these subprojects must meet specific eligibility and development criteria. Bank funds are disbursed against eligible expenditures for goods, works and services, including technical assistance.

FIL helps to develop sound financial sector policies and institutions, promote the operational efficiency of those institutions in a competitive environment, improve the terms of credit to enterprises and households private investment

EMERGENCY RECOVERY LOAN

Emergency Recovery Loans (ERL) support the restoration of assets and production levels immediately after an extraordinary event — such as war, civil disturbance or natural disaster — that seriously disrupts a borrower economy. They are also used to strengthen the management and implementation of reconstruction efforts and to
develop disaster - resilient technology and early warning systems to prevent or mitigate the impact of future emergencies.

To accommodate the emergency nature of the operations, abbreviated processing may be used. The ERC may include fast-disturbing components that finance a list of imports identified as necessary to an effective recovery programs.

ERLs focus on the rapid reconstruction of economic, social, and physical systems within a limited period, normally 2 to 3 years. The finance investment and productive activities, rather than relief or consumption. For recurring events such as annual flooding or for a slow onset disaster such as drought SIL is usually more appropriate.

ADJUSTMENT LENDING AND OTHER NON-PROJECT LENDING

Adjustment loan provides quick – disbursing assistance to countries with external financing needs, to support structural reforms in a sector or the economy as a whole. They support the policy and institutional changes needed to create an environment conducive to sustained and equitable growth.  

Adjustment loans were originally designed to provide support for macroeconomic policy reforms, including reforms in trade policy and agriculture. Over the time they have evolved to focus more on structural, financial sector, and social policy reform, and on improving
public sector resource management. Adjustment operations now generally aim to promote competitive market structures (for example, legal and regulatory reform). Correct distortions in incentives reforms (taxation and trade reform) establish appropriate monitoring and safeguards (financial sector reform) create an environment conducive to private sector investment (judicial reform, adoption of a modern investment code) encourage private sector activity (privatization and public service reform) and mitigate short-term advance effects of adjustment (establishment of social protection funds).

Structural and sector adjustment loans are the most commonly used adjustment instruments. Other types of adjustment loans designed to respond to specific borrower needs are programmatic and special structural adjustment loans and rehabilitation loans. Debt reduction loans, while not adjustment loans, often accompany adjustment operations.

*Structural Adjustment Loan (SAL) supports reforms that promote growth, efficient use of resources and sustainable balance of payments over the medium and long term loans.*

SALs typically on major macroeconomic and structural issues that cut across sectors such as trade policy, resource mobilization, public sector management, private sector development, and social safety nets.
SECTOR ADJUSTMENT LOAN (SECAL)

The Sector Adjustment Loan (SECAL) supports policy changes and institutional reforms in a specific sector.

SECAL focuses on major sectoral issues such as the incentives and regulatory frameworks for private sector development, institutional capability and sector expenditure programs.

PROGRAMMATIC STRUCTURAL ADJUSTMENT LOAN

The Programmatic Structural Adjustment Loan (PSAL) is provided in the context of a multiyear framework of phased support for a medium – term government program of policy reforms and institution building.

PSAL support the government’s program through a series of loans provided for 3 to 5 years, each building on the preceding loan to support sustained, sequential structural and social reforms. Each individual adjustment loan under PSAL typically supports a one year program, with it trenches (if there is more than one trench) spaced regularly throughout the year and tied to specific target measures. Monitor able indicators are build into the design of each loan in the series. The eligibility and disbursement criteria are the same as for SAL.
SPECIAL STRUCTURAL ADJUSTMENT LOAN

The Special Structural Adjustment Loan (SSAL) supports structural and social reforms by creditworthy borrowers approaching a possible crisis or already in crisis and with exceptional external financial needs. These loans help countries to prevent a crisis, to mitigate its adverse economic and social impacts.

SSALs are available to countries facing an actual or potential financial crisis with substantial structure and social dimensions. They support structural, social and macroeconomic policy reforms that are typically part of an international support package put together by multilateral donors, bilateral donors and private lenders and investors.

REHABILITATION LOAN

The Rehabilitation Loan (RIL) supports governments policy reform programs aimed at or creating an environment conducive to private sector investment, where foreign exchange is required for urgent rehabilitation of any key infrastructure or productive facilities. The focus is a key short term macro-economic and sector policy reform needed to reverse declines in infrastructure capacity and productive assets.

RILs are typically used when a country is committed to overall economic reform but a SAL cannot be used because the structural reform agenda is still emerging. RIL are appropriate in transition economies and post conflict situations.
DEBT REDUCTION LOAN (DRL)

The Debt Reduction Loan (DRL) helps eligible highly indebted countries reduce commercial debt and debt service to a manageable level, as part of a medium-term financing plan in support of sustainable growth. The focus is on rationalizing the country’s external commercial bank debt, by either converting it to lower-interest instruments or buying it back at a discount.

WORLD BANK GUARANTEES

Guarantees promote private financing in borrowing member countries by covering risk that the private sector is not normally in a position to absorb or manage. All Bank guarantees are partial guarantees of private, debt so that risks are shared between the Bank and private leaders. The Bank’s objective is to cover risks. It is a unique position to bear, given its experience in developing countries and its relationships with governments.

The Bank’s project based guarantees help mobilize private sector financing for individual projects; while policy based guarantees help to mobilize private resources for sovereign entities.14

The guarantee covers either sovereign and political risks or credit risks. Expect for project based partial risk guarantees, which are extended on a limited basis to IDA borrowers is support privately financial projects, Bank guarantees are available only to IBRD borrowers
PROJECT – BASED PARTIAL CREDIT GUARANTEE

This guarantee covers all risks during a specific financing period. It is designed to assist government and their entities in accessing new sources of debt financing with longer maturities that would otherwise be available.

POLICY BASED PARTIAL RISK GUARANTEE

This guarantee covers specific sovereign or political risks. It is generally used where the government has moved from owner or operator to regulator or purchaser of a service. It protects lender’s against debt service defaults that result from man’s performance of government obligations agreed to under a concession or similar arrangement.

POLICY – BASED GUARANTEE

The policy Based Guarantee (PBG) is a partial credit guarantee of sovereign borrowings from private creditors, designed to improve governments access to capital markets in support of agreed upon structural, institutional, social reforms PBGs are offered to countries with a strong track record of performance; a satisfactory structural, social and macroeconomic policy framework, and a coherent, strategy for governing (or regaining) access to international financial markets.