

# World Bank Group

## International Bank for Reconstruction and Development (IBRD)

<b>FY2002 Appropriation</b>	<b>FY2003 Request</b>
\$0	\$0

The IBRD lends at market-based rates to lower and middle income developing countries to finance key poverty reduction investments and economic policy reforms. The IBRD currently earns net income of between \$1.5 and \$2.0 billion annually. The IBRD is a AAA rated borrower on international financial markets and issues bonds to fund the bulk of its lending operations. A substantial part of the IBRD's loanable resources comes from its retained earnings and the flow of repayments on outstanding loans.

The last general capital increase of the World Bank was agreed to in 1988, and the U.S. provided its last installment to the IBRD's capital in FY1996.

### **Key Facts**

- In terms of voting shares, the U.S. is the single largest shareholder in the IBRD with 16.5%.
- The IBRD made new loan commitments of \$10.5 billion in WBFY01, bringing its cumulative lending commitments to \$360 billion.
- IBRD net income for WBFY01 was \$1.5 billion. Of this, \$618 million was transferred to reserves; \$302 million was allocated to IDA; and \$100 million was allocated to the HIPC Trust Fund (which also included \$31 million from the surplus account).
- With net loans disbursed and outstanding of \$115 billion in WBFY01, the IBRD is well within its statutory lending limit of \$208 billion – the sum of subscribed capital (\$190 billion) plus reserves and surplus (\$18 billion).
- In WBFY01, 18% of new IBRD lending was for finance, private sector development and economic policy, 21% was to strengthen social sectors (i.e., basic education and health, water and sanitation, and social protection) and 26% for infrastructure projects.

## **Institutional Effectiveness**

### *Evaluations*

The number of projects considered “at risk” in the World Bank’s portfolio has been cut in half over the past five years and is now the lowest it has been in many years.

- OED outcome evaluations are up to 82% satisfactory for World Bank projects closed in WBFY01 and evaluated to date, compared with 76% for WBFY00 closings.
- OED’s aggregate assessments of the World Bank’s development outcomes, sustainability and institutional development impacts are at a 12-year high for projects evaluated during the WBFY00-01 period, largely reflecting the improvement in satisfactory outcomes.

### *On the Ground Results*

In the areas of human development, institutional strengthening and post-conflict assistance, the World Bank has helped:

- In East Timor, to set up 400 village development councils under a project that is already funding over 500 subprojects selected by the communities themselves.
- In Brazil, to achieve a 38 percent drop in the number of AIDS-related deaths since 1993;
- In Mexico, to reduce the number of people with no health coverage from 10 million to 1.5 million;
- In Guatemala, to streamline the country’s financial management system and make its budget available online;
- In Poland, to make corruption a high-profile issue; and
- In Tunisia, to cut the public share of hospital financing from 69 percent to 35 percent.

### *Areas for Improvement*

- Focus on Productivity: The World Bank’s work has become too diffuse, attempting to be “all things to all people.” Productivity growth as a driver of poverty reduction should be the Bank’s overarching objective. A greater emphasis by the World Bank on projects that directly contribute to productivity growth is required.
- Measurable Results: The World Bank should focus on outcomes of its assistance and demonstrate on-the-ground results.
- Graduation and Pricing: The World Bank should focus its resources first on countries that do not have access to private financial markets. As the financial conditions of individual

countries improve, it should implement a system of loan rates that moves toward the private market interest rate.

- Coordination: More work is needed to bring greater consistency, simplicity and clarity where more than one multilateral development bank is operating in a particular country. The World Bank needs to do a better job of sharing ideas about what works and what does not work and to translate those best practices into common strategies that leverage the best of what the development banks have to offer.
- Focus on Countries Committed to Reform: Being selective in the use of policy based lending, which should be focused on countries with strong macroeconomic policies and sound, transparent fiduciary systems.

### **Supporting U.S. Objectives**

The activities of the IBRD promote U.S. economic and foreign policy objectives.

#### *Combating Terrorism and Money Laundering*

- Terrorist Financing: Following the September 11 events and at the request of the U.S., the World Bank strengthened its financial management and procurement procedures to ensure that Bank funds are used for their intended purposes and are not diverted to terrorists or their agents. The Bank is also working with borrower countries to clarify the Bank's due diligence requirements.
- Money Laundering: In addition, the Bank is increasing technical assistance and support for capacity building; working to improve understanding of the development cost and governance impact of money laundering and financial abuse; working with relevant anti-money laundering groups; and enhancing the anti-money laundering (AML) diagnostics.
  - Working in every region, the World Bank has provided or is in the process of providing assistance to several countries including Albania, Algeria, Colombia, Indonesia, Jamaica, Mauritius, Russia, Turkey and Ukraine.
  - The Bank's work has focused on designing anti-corruption measures including AML regimes, strengthening banking supervision and regulation practices to meet international AML standards, introducing best practices in anti-money laundering laws and regulations, and facilitating the establishment of a payment system that will enhance the ability of authorities to identify suspicious transactions.

#### *Increasing Productivity and Raising Living Standards*

- Russia: In May 2001, the IBRD approved a \$50 million loan to support the Russian government's efforts to improve efficiency and access to good quality general and vocational education through the Russian Federation.

- Guatemala: In May 2001, the IBRD approved a loan of \$62 million to improve the coverage and equity of basic education in Guatemala. The more than 100,000 children who will benefit belong mainly to indigenous groups living in rural areas.
- Colombia: In March 2001, the IBRD approved a \$150 million loan to Colombia in order to protect and improve the health and education conditions of over a million of the poorest children in the country.
- Georgia: In March 2001, the IBRD approved a \$26 million loan to help students learn more effectively and to make more efficient use of financial, physical and human resources.

#### *Promotion of Market-Oriented Economies*

- Tunisia: In December 2001, the IBRD approved a \$250 million loan to Tunisia aimed at enhancing its competitiveness in the global market. The policy measures supported by the loan are expected to translate into concrete benefits for Tunisia's public and private sectors by promoting a more transparent investment climate and increasing the role of the private sector in the economy.
- Mexico: A \$505 million IBRD adjustment loan benefits 13 million people in Mexico's largest state by reducing the state government's borrowing costs and protecting health and education services for the poor, as the state shifts to market-based borrowing.
- Panama: A \$48 million IBRD investment loan improves land administration services covering 2.5 million hectares, enabling small-scale farmers, including women and indigenous people, to obtain land, resulting in greater participation in decision making processes and equitable property rights.

#### *Anti-Corruption/Governance*

Support for countries' efforts to combat corruption has been mainstreamed and is today more than double what it was in WBFY96.

- The World Bank's November 2000 strategy on governance identified a "bottom-up" empowerment approach and longer-term Bank lending to allow for institutional reform.
- Since 1996, the World Bank (IBRD and IDA) has launched more than 600 anticorruption programs and governance initiatives in almost 100 client countries. Initiatives range from training judges to organizing workshops and teaching investigative reporting to journalists.
- Effective public spending is crucial for poverty reduction, and strong public expenditure management systems are essential to ensure that development assistance is utilized as intended. The Bank's public expenditure reviews that are part of its economic and sector work is critical to this effort.

- Nearly one quarter of new projects now include public expenditure and financial reform components.
- According to OED, the overall quality of economic and sector work has improved from about 72% satisfactory in WBFY98 to 86% in WBFY00.
- Preliminary results from the WBFY01 evaluation indicate that improvement in quality will be sustained.
- Colombia: In December 2001, the IBRD approved a \$400 million loan to support fiscal reforms in Colombia, help the Government of Colombia rationalize fiscal transfers to local governments, increase efficiency and cost-effectiveness in delivery of public health services, stem the growth of pension-related liabilities, reorganize public agencies' expenditures, and improve the public debt management system.
- Croatia: A \$5 million IBRD learning and innovation loan will strengthen the administration and case management system of the bankruptcy and commercial courts, and promote investment by ensuring a transparent legal process.

### *Information Disclosure*

- In September 2001, The World Bank's Board approved revisions to its policy on the disclosure of information, making changes that will bring greater transparency and accountability to the Bank's support for the development process. Highlights of the updated policy include:
  - The disclosure policy will now permit public access to documentation from the entire project cycle, from preparation through implementation to independent evaluation.
  - The Chairman's Concluding Remarks summarizing the Board's discussion of country assistance strategies and sector strategy papers will be made available when the underlying documents themselves are disclosed.
  - Documents in which the Bank's independent evaluation arm – the Operations Evaluation Department – reviews Management performance in various operational processes will be disclosed, along with the Management Response to such evaluations.
  - Until now, the Bank's archived documents have been available only on a case-by-case basis. Under the updated policy, archived documents will now be publicly available after 20 years. In the case of country documents of types that are now routinely disclosed but were produced under an earlier, more restricted framework, the waiting period will be 5 years.
  - Further work will investigate options for increasing translation of documents to ensure outreach to affected people, strengthening Public Information Centers, and involving

communications experts more effectively in the dissemination and outreach elements of the new policy.

- The World Bank makes available Project Information Documents, Project Appraisal Documents, Environmental Assessments and summaries of Operational Evaluations Reports. Many of these documents are available on the Bank's website. ([www.worldbank.org](http://www.worldbank.org))
- Nearly 70 percent of projects approved by the World Bank during the last fiscal year involved the participation of non-governmental organizations (NGOs), and all of the Bank's country strategies benefited from NGO consultations.
- A good example of civil society participation in Bank projects is in East Timor, where a Community Empowerment and Local Governance Project supports democratically elected village councils of equal numbers of men and women in repairing roads and water supplies, restarting economic activities, and providing direct assistance to those most in need.

#### *Internal Institutional Controls*

- A review of the World Bank's implementation rates for audit recommendations issued in WBFY99-01 shows a steady progress in the efforts made by World Bank management to take positive and effective remedial actions.
- Examples where such efforts have resulted in improvements being made include trust fund management; internal controls and security over the UNIX systems; and administrative and financial controls in country offices. The U.S. has proposed further reforms in the area of trust fund management.

#### *Fiscal Transparency*

- Colombia: A \$36 million IBRD investment loan will benefit taxpayers and the poor by helping to strengthen revenue collection and expenditure management in Colombia's national government, and to increase transparency and accountability.

#### *Financial Market Emergencies*

- Turkey: The IBRD helped address Turkey's financial crisis in 2001 through a \$778 million adjustment loan and a \$250 million investment loan to help reform its financial sector and mitigate the negative impact of economic reforms, respectively.
- Colombia: In March 2001, the IBRD approved a Policy-Based Guarantee Operation for up to \$220.3 million to support a bond market issue of \$1 billion or more by the government of Colombia. The guarantee is designed to support emerging economies with a strong track record of macroeconomic stability and growth, but whose access to international markets is temporarily constrained.

### *Disaster Assistance*

The World Bank continues to play a role in many cases in providing reconstruction assistance following natural disasters, with growing attention to disaster prevention. In the last five years, lending for reconstruction totaled nearly \$5 billion.

- El Salvador: In December 2001, the IBRD agreed to provide up to \$270 million to El Salvador over the next three years, including a \$143 million Earthquake Emergency Reconstruction and Health Services Extension Project.
- Mexico: A \$404 million IBRD emergency recovery loan supports wide-ranging initiatives to reduce vulnerability to natural disasters and to support rapid recovery when disasters do occur, thereby reducing the human cost of natural disasters to the poorest communities.
- Grenada: A combined IBRD loan of \$5 million and IDA credit of \$5 million will help the government strengthen its responses to and preparedness for natural disasters, reducing the likelihood of loss of life and assets, and making the economy less vulnerable.
- Belize: A \$13 million IBRD investment loan finances paving of gravel roads and improvements to water drainage to handle floods, increasing Belize's capacity to cope with natural disasters and improving road safety and farmers' access to markets.

### *Environmental Improvement*

- Latvia: A \$2 million IBRD investment loan will address environmental and health concerns in the Liepaja Region through improved solid waste management and the development of a waste treatment facility, utilizing modern management practices.
- Philippines: A \$5 million IBRD learning and innovation loan supports testing of alternative approaches to land management and administration and lays a foundation for implementing a long-term land administration and management program, benefiting poverty reduction and economic growth.

### *IFI Collaboration*

- IMF: The World Bank and the IMF continue to work together to assist borrowers to develop their own Poverty Reduction Strategy Papers (PRSP), which are required for countries to be eligible for HIPC debt relief. The PRSPs guide Bank and Fund future lending programs for all IDA and Poverty Reduction and Growth Facility (PRGF)-eligible countries.
- In addition, 23 countries participated in the joint World Bank-IMF Financial Sector Assessment Program (FSAP), which analyzes vulnerabilities in countries' financial sectors and proposes follow-up action programs.
- Heads Meetings: Intensified coordination at all the multilateral development banks includes regular meetings of the heads of these institutions.

- Harmonization: Several technical working groups have been established to work on harmonization and convergence in the way the multilateral development banks work.
- Memoranda of Understanding: To avoid duplication and enhance effectiveness, the World Bank has signed memoranda of understanding (MOU) with the African Development Bank, the Inter-American Development Bank and the Asian Development Bank.
- Afghanistan Trust Fund: The World Bank will co-administer a trust fund for Afghanistan, in collaboration with the UNDP, the Asian Development Bank and the Islamic Development Bank.

*Opportunities for U.S. Businesses*

- In 2000, World Bank (IBRD/IDA) operations produced \$1,529 million in business benefits to the U.S., including \$1,148 million in estimated exports and \$381 million in disbursements to U.S. addresses.