

# Intro college essay



Over the past generation, more progress has been made in reducing poverty and raising living standards than during any other period in history. In developing countries, life expectancies have increased from 55 to 64 years, Income per person has doubled and Infant Mortality has been reduced by 50 percent. Despite the successes, massive development challenges remain. Three billion people live on less than 2 dollars a day and 1.3 billion live on less than one dollar a day. Over 40,000 people die each day from preventable disease. 130 million never have the opportunity to go to school and 1.3 billion do not have clean drinking water. By allowing poverty to increase in developing countries this can adversely affect wealthier nations as markets and investments opportunities shrink, the environment is damaged and people migrate in search of work and income. The World Bank is helping countries to strengthen and sustain the fundamental conditions they need to attract and retain private investment. With World Bank support financial and nonfinancial governments are reforming their overall economies and strengthening banking systems. They are investing in human resources, infrastructure, and environment protection which enhances the attractiveness and productivity of private investment.

The World Bank GroupThe World Bank Group comprises five organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). The term World Bank refers to only IBRD and IDA. The World Bank is the largest provider of development assistance to developing countries and

countries in transition, committing about \$20 billion in new loans each year. Its main focus is to help people in developing countries raise their standards of living through finance for agriculture, schools, health programs, transportation and other essential needs.

The International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) are the private sector affiliates of the World Bank Group. IFC supports private enterprise in the developing world through loan and equity financing. MIGA facilitates the flow of private foreign direct investment to its developing member countries by providing investment insurance to foreign private investors in these countries against political risks such as expropriation, breach of contract and war. It also provides investment marketing services and legal advice to host governments on means to attract foreign investment. The International Centre for Settlement of Investment Disputes provides facilities for the conciliation and arbitration of disputes between governments of ICSID member countries and investors. It does not itself engage in conciliation and arbitration.

IBRDThe International Bank for Reconstruction and Development (IBRD) was established in July 1944 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, USA. The World Bank opened for business on June 25, 1946. In 1947 it gave its first loan to France for \$250 million to finance post-war construction. Today, the World Bank has a lending portfolio of \$144 billion. Its main purpose is to provide loans and development assistance to middle-income countries and credit-worthy poorer countries. Voting power is linked to members capital subscriptions, which in turn are based on each country's relative economic strength. The <https://assignbuster.com/intro-3505-words-college-essay/>

IBRD obtains most of its funds through the sale of bonds in international capital markets.

The International Development Association, IDA, is the World Bank Group's concessional lending window. It provides long-term loans at zero interest to the poorest of the developing countries. The overarching goals of IDA lending are to assist countries in reducing poverty and in achieving sustainable, broad-based economic growth. With the United States taking the initiative, a group of Bank member countries decided to set up an agency that could lend to very poor developing nations on highly concessional terms. They called the agency the International Development Association (IDA). Its founders saw IDA as a way for the "haves" of the world to help the "have-nots." But they also wanted IDA to be imbued with the stern discipline of a bank. For this reason, US President Dwight D. Eisenhower proposed, and other countries agreed, that IDA should be part of the World Bank. IDA's became effective in 1960. The first IDA loans (known as credits) were approved in 1961, to Honduras, India, Sudan and Chile. IBRD and IDA are run on the same lines. They share the same staff, the same headquarters, report to the same president and use the same rigorous standards when evaluating projects. IDA simply takes its money out of a different "drawer." A country must be a member of IBRD before it can join IDA; 160 countries are IDA members. IDA lends only to those countries that have a per capita income in 1996 of less than \$925 and lack the financial ability to borrow from IBRD on market terms. At present, 80 countries are eligible to borrow from IDA. Together these countries are home to 3.3 billion people, comprising 69 percent of the total population of the developing countries. Today, 2 billion of

these people survive on incomes of \$2 or less a day. When a country's GNP exceeds IDA's eligibility threshold and it becomes creditworthy to borrow from IBRD, it is no longer eligible for IDA's interest-free credits. It may then borrow from IBRD at market-related rates. Some countries, such as China and India, are eligible for a combination of financing from both IBRD and IDA. These countries are known as "blend" borrowers. Countries which once borrowed from IDA but are now too prosperous to qualify include Costa Rica, Chile, Indonesia and Morocco. IDA Lending IDA credits have maturities of 35 or 40 years with a 10-year grace period on repayment of principal. There is no interest charge, but credits do carry a small service charge, currently 0.75 percent on undisbursed balances. Since 1960, IDA has lent almost \$108 billion to some 106 countries. It lends, on average, about \$5-6 billion a year for different types of development projects, especially projects that help the poorest nations with their peoples' basic needs, such as education, clean water and sanitation, health, family planning and food production. IDA also funds projects that protect the environment, improve conditions for private business, and back reforms aimed at liberalizing countries' economies. All these projects pave the way toward economic growth, job creation, higher incomes and a better quality of life. IDA funds are allocated to the borrowing countries in relation to their size, income level and track record of success in managing their economies and their ongoing IDA projects. During the IDA11 period, nearly half of IDA funds are likely to go to countries in Sub-Saharan Africa. Most of the rest will go to Asian countries such as India, Vietnam, Bangladesh and China and to the poorer nations of Latin America and the Caribbean, the Middle East, Europe and Central Asia. IDA Funding Whereas IBRD raises most of its funds on the world's financial markets, IDA is funded

largely by contributions from the governments of the richer member countries. Their cumulative contributions since IDA's beginning total US\$96 billion equivalent. Additional funds come from IBRD's income and from borrowers' repayments of earlier IDA credits. Donors are asked every three years to replenish IDA funds. The 11th replenishment (IDA11) will finance projects over the three years starting July 1, 1996. Funding for the 11th Replenishment will allow IDA to lend about \$22 billion, of which donors' contributions will provide about half. The IDA11 package includes an Interim Trust Fund to fund some lending in fiscal year 1997. The Interim Trust Fund was created by donors to bridge the funding gap created by the absence of a new contribution from the United States for fiscal 1997. The largest pledges to IDA11 were made by the United States, Japan, Germany, France, United Kingdom and Italy. Some less wealthy nations also contribute to IDA. Turkey and Korea, for example, once borrowers from IDA, are now donors. Countries currently eligible to borrow from IBRD — Argentina, Botswana, Brazil, Czech Republic, Hungary, Mexico, Poland, Russia and South Africa — will also be IDA11 donors. The other contributors to the 11th Replenishment are Australia, Austria, Belgium, Canada, Denmark, Finland, Greece, Iceland, Ireland, Israel, Kuwait, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Saudi Arabia, Spain, Sweden, and Switzerland. Representatives from these donor countries are currently discussing the twelfth replenishment of IDA which will finance projects between July 1999 to June 2002. IDA's Impact on Poverty IDA attacks poverty through a broad range of projects, including projects targeted on human resource development such as education, health, population and nutrition, and water supply and sanitation (33%), agriculture and rural development (23%), and the provision

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of infrastructure (23%). IDA also contributes to poverty reduction by advising governments on the best policies for attaining broad-based economic growth. IDA supports governments as they eliminate wasteful public enterprises and central government controls on business, and as they open up markets and encourage private investment. IDA is now the single largest source of donor funds for basic social services in the poorest countries. Children one billion of whom live in IDA recipient countries are the main beneficiaries of the resulting investments in basic health, primary and literacy education and clean water. IDA is the largest source of funds for anti-AIDS and HIV programs in poor countries, where women and children and particularly hard-hit. It has funded 55 projects in 39 countries, with almost half a billion dollars in lending. Thanks to IDA: African pupils have received over 6 million textbooks? Enrollment in rural schools in Bangladesh has risen by 22 per cent for boys and 33 for girls? In 6 of Africa's poorest countries, more than 300 rural health clinics have been built or rehabilitated. 7, 000 classrooms in rural Bangladesh have allowed twice as many girls to enrol in school? In Bolivia, 230, 000 low-income people (mostly women and youths) have received vocational training. IFC/IFC was established in 1956 to encourage private sector activity in developing countries. It does this primarily through three types of activities: financing private sector projects, helping companies in the developing world to mobilize financing in the international financial markets, and providing advice and technical assistance to businesses and governments.

Project Finance IFC offers a full array of financial products and services to companies in its developing member countries: long-term loans in major

currencies, at fixed or variable rates? equity investments? quasi-equity instruments (subordinated loans, preferred stock, income notes)? guarantees and standby financing? risk management (intermediation of currency and interest rate swaps, provision of hedging facilities) It can provide financial instruments singly or in whatever combination is necessary to ensure that projects are adequately funded from the outset. It can also help structure financial packages, coordinating financing from foreign and local banks and companies and export credit agencies.

IFC charges market rates for its products and does not accept government guarantees. To be eligible for IFC financing, projects must be profitable for investors, benefit the economy of the host country, and comply with stringent environmental guidelines. IFC finances projects in all types of industries, from agribusiness to mining, from manufacturing to tourism. Although it is primarily a financier of private sector projects, it may provide finance for a company with some government ownership, provided there is private sector participation and the venture is run on a commercial basis. It can finance companies that are wholly locally owned as well as joint ventures between foreign and local shareholders.

To ensure the participation of investors and lenders from the private sector, IFC limits the total amount of debt and equity financing it will provide for any single project to 25 percent of total estimated project costs; it may provide up to 35 percent of the equity capital for a project provided it is never the largest shareholder. IFC investment typically range from \$1 million to \$100 million. Its funds may be used for permanent working capital or for foreign or local expenditures in any IBRD member country to acquire fixed assets.



**Mobilization** Thanks to its success record and special standing as a multilateral institution, IFC is able to act as a catalyst for private investment. Its participation in a project enhances investor confidence and attracts other lenders and shareholders. IFC mobilizes financing directly for sound companies in developing countries by syndicating loans with international commercial banks and underwriting investment funds and corporate securities issues; it also handles private placements of securities.

**Advice and Technical Assistance** IFC advises business in developing countries on a wide variety of matters, including physical and financial restructuring; the formulation of business plans; identification of markets, products, technologies, and financial and technical partners; and mobilization of project finance. It can provide advisory services in the context of an investment, or independently for a fee, in line with market practice.

It also advises governments on how to improve the environment for private investment. For example, it assists them in developing domestic capital markets and restructuring and privatizing state-owned enterprises. The Foreign Investment Advisory Service, which is jointly operated by IFC and the IBRD, provides advice on attracting foreign investment.

**Ownership and Management** IFC has 174 member countries. To join IFC, countries must first be a member of the IBRD. IFC's corporate powers are vested in its Board of Governors, to which member countries appoint representatives. IFC's share capital, which is paid in, is provided by its member countries, and voting is in proportion to the number of shares held. IFC's authorized capital is \$2.45 billion. The Board of Governors delegates

many of its powers to a Board of Directors, composed of the Executive Directors of the IBRD, who represent IFCs member countries. The Board of Directors reviews all projects. IFC is affiliated with the IBRD, but it has its own share capital, Articles of Agreement, and staff. Although IFC generally operates independently of the IBRD, the two institutions coordinate their activities in many areas.

**Funding of IFCs Activities** IFCs equity and quasi-equity investments are funded out of its net worth the total of paid in capital and retained earnings. Of the funding required for its lending operations, 80 percent is borrowed in the international financial markets through public bond issues or private placements; the remaining twenty percent is borrowed from the IBRD. IFCs bond issues have been given triple-A ratings by Moodys and Standard & Poors.

**MIGA** In September 1985 the World Bank Board of Governors began the process of creating a new investment insurance affiliate by endorsing the MIGA Convention that defined its core mission“ to enhance the flow to developing countries of capital and technology for productive purposes under conditions consistent with their developmental needs, policies and objectives, on the basis of fair and stable standards for the treatment of foreign investment.” MIGA was also created to supplement national and private agencies supporting foreign direct investment through their own investment insurance programs. The Agency was designed to encourage foreign investment by providing viable alternatives in investment insurance against non-commercial risks in developing countries thereby creating investment opportunities in those countries. MIGA’s multilateral character

and joint sponsorship by developed and developing countries were seen as enhancing confidence among investors with different nationalities seeking to invest jointly in an investment project in a developing country.

The MIGA Convention also gives the Agency a technical assistance mandate to “ carry out research, undertake activities to promote investment flows and disseminate information on investment opportunities in developing member countries, with a view to improving the environment for foreign investment flows to such countries.” MIGA has carried out this mandate through provision of programs, dissemination of information on investment opportunities, and technical assistance that enhances national investment promotion capabilities in an increasingly competitive environment.

MIGA is an agency affiliated with the World Bank Group. Membership is open to all World Bank members. The Agency has a capital stock of SDR1 billion. The Board of Directors has approved a recommendation to the Council of Governors for a Capital Increase for the Agency of approximately US\$850 million. In addition US\$150 million has been transferred to MIGA by the World Bank as operating capital. The President of the World Bank is Chairman of the MIGA Board of Directors and President of the Agency, and the Agency’s Executive Vice President is its chief operating officer.

Some of MIGA’s niches in the global market for investment insurance were foreseen as: augmenting the capacity of other public or private insurers of political risks through coinsurance or reinsurance; insuring investment in countries restricted or excluded by the policies of other national insurers or through specific policies adopted by Governments; serving investors who do

not have access to other official political risk insurers;? providing coverage to investors of different nationalities in a multinational syndicate, thereby affording convenience in insurance contracting and claims settlement, and? providing coverage of forms of investment not offered by other insurers and on terms designed to be more effective in encouraging investment. ICSID On a number of occasions in the past, the World Bank as an institution and the President of the Bank in his personal capacity have assisted in the mediation or conciliation of investment disputes between governments and private foreign investors. The creation of the International Centre for Settlement of Investment Disputes (ICSID) in 1966 was in part intended to relieve the President and the staff of the burden of becoming involved in such disputes. But the Banks overriding consideration in creation ICSID was the belief that an institution specially designed to facilitate the settlement of investment disputes between governments and foreign investors could help to promote increased flows of international investment. ICSID was established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Convention) which has to date been signed to date by 139 States. ICSID has an Administrative Council and a Secretariat. The Administrative Council is chaired by the World Banks President and consists of one representative of each State which has ratified the Convention: these now number 126. Annual meetings of the Council are held in conjunction with the joint Bank/Fund annual meetings. ICSID is an autonomous international organization. However, it has close links with the World Bank. All of ICSIDs members are also members of the Bank. Unless a government makes a contrary designation, its Governor for the Bank sits ex officio on ICSIDs Administrative Council. The Vice President and General

Counsel of the Bank has consistently been elected by the Administrative Council to serve as ICSID's Secretary General. Staffing for the ICSID Secretariat is provided by the Bank's Legal Department. The expenses of the Secretariat are financed out of the Bank's budget, although the costs of individual proceedings are borne by the parties involved. Pursuant to the Convention, ICSID provides facilities for the conciliation and arbitration of disputes between member countries and investors who qualify as nationals of other member countries. Recourse to ICSID conciliation and arbitration is entirely voluntary. However, once the parties have consented to arbitration under the ICSID Convention, neither can unilaterally withdraw its consent. Moreover, all ICSID members, whether or not parties to the dispute, are required by the Convention to recognize and enforce ICSID arbitral awards. Provisions on ICSID arbitration are commonly found in investment contracts between governments of member countries and investors from other member countries. Advance consents by governments to submit investment disputes to ICSID arbitration can also be found in about twenty investment laws and in over 700 bilateral investment treaties. Arbitration under the auspices of ICSID is similarly one of the main mechanisms for the settlement of investment disputes under four recent multilateral trade and investment treaties (the North American Free Trade Agreement, the Energy Charter Treaty, the Cartagena Free Trade Agreement and the Colonia Investment Protocol of Mercosur). To date, 41 cases have been registered by the Centre, 3 involving conciliation and the remaining 38 arbitration. Ten of the arbitrations are currently pending before the Centre. The majority of the other cases have concluded with settlements by the parties on agreed terms, before the rendition of an award. Parties to ICSID proceedings have

included the governments of 32 different countries from each of the major regions of the world and nationals of a dozen other countries. The disputes have involved a variety of different kinds of investment in the agricultural, banking, construction, energy, health, industrial, mining and tourism sectors. Ninety-two different individuals from thirty-seven countries have served on the conciliation commissions and arbitral tribunals thus far constituted in the cases. ICSID carries out advisory and research activities relevant to its objectives and sponsors a number of publications. These include multi-volume collections of Investment Laws and of Investment Treaties, which are periodically updated by ICSID staff. Since April 1986, the Centre has published a semi-annual law journal entitled ICSID Review-Foreign Investment Law Journal.

A New Bank for 2000As we move into the new millennium, the Bank has embarked on a strategic compact with its clients and shareholders to improve the quality of its assistance, by:?

- Helping the poorest countries reduce their debt burden so they can fund development initiatives instead of interest payments?
- Helping fight corruption that undermines economic growth?
- Helping developing countries to adopt modern communication technologies and skills so they can be more competitive?
- Strengthening and reforming banking systems and financial sectors that would help avoid future crises such as those in Mexico in 1994-95 and East Asia in 1997-98?
- Meeting the future food needs of a growing population and paying more attention to agricultural and rural development?
- Ensuring development is consistent with the social and cultural needs of beneficiaries.