

Financial resources for lending purposes economics essay

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Once the IBRD had been established, it had an authorized capital of US\$ billion. The countries that subscribe to join the IBRD, are required to pay one-fifth of their subscription and the remainder being available on call but only for the IBRD's liabilities if got into difficulties. The one-fifth also can be paid by gold or US dollars OF 2% of each countries subscription. A further 18% of the subscription was payable in the currency of the member country concerned. Countries joining the IBRD after the 1959 capital increase and for those subscribing to additional capital stock, the statutory provisions affecting the 2% and 18% portions have been applied to only one-half of their total subscriptions. 1 % of each subscription that is freely usable in the IBRD's operations has been payable in gold or US dollars, and 9% that is usable only with the consent of the members is in the members currency. The remaining 90% is not paid in but is subject to call by the IBRD.

Financial Resources for Lending Purposes.

The subscriptions of the IBRD's members becomes the basic element in the financial resources and the bank also getting money from borrowings in the market and from earnings. IBRD have the potential to raise large sums at interest rates little or no higher than are paid by governments because of confidence in the bank engendered by its record of stability since 1947 and the investor's knowledge that if the IBRD should ever be in difficulty, it can call in unpaid portions of member countries' subscriptions. The bank undertakes a substantial volume of currency and interest rate swap transactions. These swaps have enabled the IBRD to lower its fund-raising costs and to expand its direct borrowing transactions to markets and currencies in which it otherwise would not have borrowed.

2)Lending Operations

Loan Terms and Interest Rates.

There are two main elements in the lending operations of IBRD. They are loan terms and interest rates. Usually IBRD tend to make long-term loans with repayment commencing after a certain period. The length of the loan is generally related to the estimated useful life of the equipment or plant being financed. Since July 1982, IBRD loans have been made at variable rates. For the further details the lending rate on all loans made under the variable-rate system is adjusted semi-annually, on 1 January and 1 July, by adding a spread of 0.5% to the IBRD's weighted average cost during the prior six months of a " pool" of borrowings drawn down after 30 June 1982. Then it brings a new turnover, since July 1989, only borrowings allocated to lending have been included in the cost of borrowings with respect to new loans and existing variable rate loans that are amended to apply the new cost basis. While in the other hand of interest periods beginning from 1 July 2002 through 31 December 2002, the variable lending rate was 5.27%. Before July 1982, loans were made at fixed rates, and, accordingly, the semi-annual interest-rate adjustments do not apply to payments made on these older loans.

Purpose of the loans.

The banks activity is to lend developing member countries for productive projects in such sectors as agriculture, energy, industry, and transportation and to help improve basic services considered essential for development.

The main criterion for assistance is that it should be provided where it can be most effective in the context of the country's specific lending programs

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developed by the Bank in consultation with its borrowers. In the late 1980s, the World Bank came under criticism that its policies. The bank intended to help developing countries to restructure their economies in order to render them more efficient, were actually imposing too heavy a burden on the world's poorest peoples.

Implementing the Bank's Poverty Reduction Strategy.

The main objective of the bank is to reduce continues poverty. By supporting the objective there is a two-part strategy for reducing poverty that was proposed in the World development Report 1990. The first element is to promote broad-based economic growth that makes efficient use of the poor's most abundant asset that is labour. The second element involves ensuring widespread access to basic social services to improve the well being of the poor. It is also enable them to participate fully in the growth of the economy. Annual meetings of the World Bank Group and IMF that held on September 1999, ministers agreed to link debt relief to the establishment of a poverty reduction strategy for all countries receiving World Bank/IMF concessional assistance.

Sector and Structural Adjustment Lending.

IBRD lends to sector adjustment and structural adjustment increasingly supports the establishment of social safety nets and the protection of public spending for basic social services. The bank help the countries that preparing adjustment programs to design the phasing of programs to accommodate the needs of the poor, give priority to relative price changes in favour of the poor early in the reform process, secure adequate resources for

the provision of basic social services aimed at the poor, and design social safety nets into economic-reform programs. These will help the poor to raise up in the economic growth and associated employment opportunities that are facilitated by the implementation of adjustment programs.

Human Resource Development

For Human Resource Development, the bank largely been committed for education. It just mainly focus on development of basic education. The bank lending for education had increased from an average US\$ 1, 907 million during the first four years of the 1990s. In 1999 the amount climbed to US \$2, 014 million. Bank lending for population, health, and nutrition has expanded even more rapidly. Average yearly lending to this sector during the 1980s was US\$ 207 million, while lending during fiscal 1999 was US\$ 1, 726 million.

The Environment

The bank support environmental protection efforts with loans. World Bank undertook structural changes to respond to growing borrower demand for Bank assistance in environmental issues, and to the need for internal strengthening of monitoring and implementation. A Vice Presidency for Environmentally and Socially Sustainable Development was established. There are three departments under the vice presidency which is the Environment Department, the Agriculture and Natural Resources Department, and the Transport and Urban Development Department. The Global Environment Facility is a cooperative venture between the World Bank, the United Nations Development Programme, the United Nations

Environment Programme, and national governments. The Facility provides grants to help developing countries deal with environmental problems that transcend boundaries, such as airborne pollution produced by smokestacks or hazardous waste dumped into rivers. The GEF gives priority to four objectives that is, limiting emissions of greenhouse gases, preserving biodiversity, protecting international waters and protecting the ozone layer.

Private sector development

The promotion of private sector growth in developing member countries has always been central to the Bank's overall mission of fostering sustainable growth and reducing poverty. In December 1999, the Bank Group announced a restructuring to better align and expand its work related to the private sector. The reforms took effect 1 January 2000. The reorganization tightened the link between the Bank's public sector work and its private sector transactions in the developing world, which are made through the IFC. The World Bank helps governments to formulate policy frameworks that encourage a positive environment for business to function as the primary engine of growth while the IFC, the private sector arm of the Bank Group, provides advice and makes loans and equity investments in companies in developing countries.

Other activities

Technical assistance

The Bank provides its members with a wide variety of technical assistance, much of it financed under its lending program. The volume of technical assistance in which the Bank is involved as lender, provider, or administrator

rose sharply during the 1990s. In addition to loans and guarantees to developing countries, the World Bank carries out its mission by providing advice and assistance with telecommunications sector reform and national information infrastructure strategies. Special programs in this category include InfoDev and TechNet. The Information for Development Program (InfoDev) began in September 1995 with the objective of addressing the obstacles facing developing countries in an increasingly information-driven world economy. It is a global grant program managed by the World Bank to promote innovative projects on the use of information and communication technologies (ICTs) for economic and social development, with a special emphasis on the needs of the poor in developing countries.

Interagency cooperation

The Bank's overarching purpose is helping to reduce global poverty. To this end, the institution encourages the involvement of other development agencies in preparing poverty assessments and works closely with other UN agencies in preparing proposals to improve the quality of poverty-related data. At the country level, the Bank is broadening its efforts to coordinate work with UNDP, UNICEF, and the International Fund for Agricultural Development in specific countries on preparing or following up poverty assessments and planned human development assessments. Coordination between the Bank and the UN system on poverty at the project level is extensive, particularly in the design of social funds and social action programs. Together with other UN agencies, the World Bank has taken the lead in mobilizing groups of donors, both multilateral and bilateral, to tackle specific areas of concern. The Economic Development Institute was the

Bank's department responsible for such dissemination. Through seminars, workshops and courses, EDI enabled policy-makers to assess and use the lessons of development to benefit their own policies.

Economic research and studies

The Bank's economic and social research program, inaugurated in 1972, is undertaken by the Bank's own research staff and is funded out of its administrative budget. The research program is shaped by the Bank's own needs, as a lending institution and as a source of policy advice to member governments, and by the needs of member countries. Its main purposes are to gain new insights into the development process and the policies affecting it; to introduce new techniques or methodologies into country, sectoral, and project analyses; to provide the analytical bases for major Bank documents, such as the World Development Report; and to help strengthen indigenous research capacity in developing countries.