

## THE WORLD BANK

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### Summary

The International Bank for Reconstruction and Development (IBRD), commonly called the World Bank was created as part of the revised institutional structure for the world economy at the end of the Second World War. Initially focused on reconstruction from the late 1940s it increasingly turned its attention to financing economic development and it is currently the main multilateral source of development assistance. The World Bank currently consists of five institutions – the IBRD, the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for the Settlement of Investment Disputes (ICSID). The Bank plays three crucial roles in the development assistance regime developed after the Second World War, and regime. It provides financial resources, contributes to the development of knowledge, and provides mechanisms to settle disputes.

The highest authority of the World Bank is the Board of Governors that meets annually, with every member being represented. In the interval the 24-member Executive Board that meets several times each week acts on behalf of the Board of Governors. The day-to-day running of the organization is shared between the bureaucracy headed by the President, and the Executive Board. Decision-making in the Bank is based on weighted voting. The Bank's approach to development assistance has evolved over time and is marked by continuity and change. Assessment of the impact of the Bank on development depends on whether continuity or change is emphasized. The Bank exerts

leverage over borrowing countries through the conditions it attaches to its loans. This conditionality has been highly controversial.

The Bank was slow to recognize the environmental impact of its policies. From 1987 the Bank has attempted to mainstream the environment throughout its organizational structure. Nevertheless, many critics remain skeptical concerning the Bank's commitment to a 'green' agenda.

## **1. The Creation and Evolution of the World Bank**

As World War II drew to a close the Allied Powers, most notably Great Britain and the United States, began discussions on the future management of the international economy.

The International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF) were created as a result of negotiations conducted at a conference held at Bretton Woods, New Hampshire, USA, in July 1944. The IMF's task was to provide short-term financial assistance for countries suffering balance of payments problems while the IBRD (also known as the Bank) as is evident in its official title, was given two tasks: to provide long-term financing for the post-war reconstruction of war damaged economies, and the promotion of economic development in the underdeveloped world. The Bank which became operational on 25 June 1946 did not arise fully solely on the basis of the Bretton Woods conference but was also the product of wartime discussions between the United States and the United Kingdom on the shape of the post-World War II international economic order. The development functions of the Bank although given equal weight with those of reconstruction in its Articles of Agreement were included at the insistence of the Latin American countries attending the Bretton Woods conference. But at the outset its initial priority was the reconstruction of the war-damaged European economies. And it was the provisions of capital for reconstruction of the war-damaged economies that dominated the concerns of the organization. It was envisaged that the Bank would fulfill its role in reconstruction largely by channeling US private investment to Europe through its guarantee of these loans. In the absence of private investment on reasonable terms the Bank was mandated to provide finance for investment purposes out of its own financial resources.

The founders of the Bank were determined to improve on the poor record of international lending in the 1920s and 1930s. During the inter-war period capital raised through the sale of securities in foreign capital markets had frequently been put to unproductive purposes and had made a limited contribution to the productive capacity of the borrowers. Many loans had been made at high interest rates without reference to the ability of borrowers to service new or even existing foreign debt. In the light of these conditions certain safeguards were built into Bank lending. First, loans are made only for productive purposes and except in special circumstances only for specific projects. Secondly the Bank only lends to governments or enterprises guaranteed by a member government, central bank or comparable agency. Thirdly, the Bank's loans are not tied, i.e. no conditions are attached to where they can be spent. Fourthly, the Bank is a lender of the last resort. The Bank only lends if it is satisfied that the borrower is unable to obtain finance from private sources under reasonable conditions.

It soon became apparent that the resources provided to the Bank were inadequate to meet the needs of European reconstruction. With the advent of the Marshall Plan (1947) the World Bank's role in reconstruction became a supportive rather than dominant one. Moreover, the Bank's members have retained its pre-eminence in the development assistance regime through periodic innovation. The Bank has evolved in the past half-century and now comprises five institutions. The IBRD provides loans for middle-income developing countries. The International Development Association (IDA), created in 1960, is the soft loan affiliate of the IBRD and provides loans to the poorest developing countries on very favorable terms. The International Finance Corporation (IFC) was established in 1956 to assist economic development in poor countries through investing in private projects, supporting the growth of private capital markets and encouraging flows of domestic and foreign capital. The Multilateral Investment Guarantee Agency (MIGA), established in 1988, aims to encourage the flow of direct investment to developing countries through the lessening of non-commercial investment barriers. The International Center for the Settlement of Investment Disputes (ICSID) established in 1966. The Bank is central to the development assistance regime developed after the Second World War, and plays three crucial roles in this regime. It provides financial resources, contributes to the development of knowledge, and provides mechanisms to settle disputes.

Change has not been confined to the creation of new institutions but is discernible in the evolution of the World Bank's lending policies and development goals and strategy. Although the Bank's approach to development has been based on liberal economic premises since its inception it is nevertheless possible to recognize five distinct periods in the organization's history. In the first period 1947–1960 the Bank was mainly concerned with reconstruction; the second period, 1960–1972 saw a focus on infrastructural development; the third period, 1973–1979 brought attention to basic needs and agriculture; in the fourth period, 1980–1994, attention was given to structural adjustment lending; from 1995 until the present the Bank has emphasized sustainable development. As will be evident continuity as well as change marks the World Bank's approach to development. To gain access to resources, a government must submit an economic program for approval by the Executive Board, with disbursement of funds being dependent upon the achievement of specified performance targets. This practice is referred to as 'conditionality' i.e. the disbursement of funds is conditional on the implementation of policies sanctioned by the World Bank. The scope of the Bank's conditionality has increased over time, and has consequently become increasingly controversial.

## **2. The Organizational Structure of the World Bank Group**

The World Bank Group consists of five organizations – the IBRD, International Development Association (IDA), International Financial Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and International Center for the Settlement of Investment Disputes (ICSID). The IDA is an affiliate of the IBRD whereas the IFC, MIGA and ICSID are legally separate organizations.

Membership of the World Bank is linked to that of the International Monetary Fund. At the Bretton Woods conference it was decided that only countries willing to submit to the

financial discipline of the IMF would be eligible for the concessional facilities offered by the World Bank. Membership of the Bank is thus conditional on first becoming a member of the Fund. Moreover, membership of the IBRD is requirement for all countries planning to become members of IDA, IFC, MIGA or ICSID. However, countries are under no requirement to become members of all five organizations. This is substantiated by the membership lists of the five organizations at the end of 2000. Membership of the IBRD stood at 182, that of the IDA at 161, the IFC comprised 174 members, MIGA 154, and the ICSID was the smallest organization in the group with 133 members. The term World Bank is usually taken to refer to the IBRD and IDA and that usage will be followed here. Attention will focus on the IBRD and IDA (World Bank) rather than the IFC, MIGA and ICSID.

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#### **Biographical Sketch**

**Marc Williams** is Professor of International Relations, School of Politics and International Relations, University of New South Wales, Sydney, Australia. He has also taught at the University of Sussex, and the Bologna Center of Johns Hopkins University. He has published books on the Third World in international politics, international economic organizations, and social movements and world politics. His recent publications have focused on global environmental politics, and the political economy of the world trading system.