World Bank Group

- With **189 member** countries, the World Bank Group is a unique global partnership: **five institutions** working for sustainable solutions that reduce poverty and build shared prosperity in developing countries.
- The Bank Group works with country governments, the private sector, civil society organizations, regional development banks, think tanks, and other international institutions on issues ranging from climate change, conflict, and food security to education, agriculture, finance, and trade.

A Group of Institutions

Together, the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) form the World Bank, which provides financing, policy advice, and technical assistance to governments of developing countries. While the World Bank Group consists of **five development institutions**.

- **International Bank for Reconstruction and Development (IBRD)** provides loans, credits, and grants.
- **International Development Association (IDA)** provides low- or no-interest loans to low-income countries.
- The **International Finance Corporation (IFC)** provides investment, advice, and asset management to companies and governments.
- The **Multilateral Guarantee Agency (MIGA)** insures lenders and investors against political risk such as war.
- The **International Centre for the Settlement of Investment Disputes (ICSID)** settles investment-disputes between investors and countries.

All of these efforts support the **Bank Group's twin goals of ending extreme poverty by 2030** and boosting **shared prosperity** of the poorest 40% of the population in all countries.

History

- **The Bretton Woods Conference,** officially known as the **United Nations Monetary and Financial Conference,** was a gathering of delegates from 44 nations that met from July 1 to 22, 1944 in **Bretton Woods, New Hampshire (USA),** to agree upon a series of **new rules for international financial and monetary order** after the conclusion of World War II.
- The two major accomplishments of the conference were the creation of the **International Bank for Reconstruction and Development (IBRD) and International Monetary Fund (IMF)**.
- Founded in 1944, the **International Bank for Reconstruction and Development (IBRD) — soon called the World Bank — has expanded to a closely associated group of five development institutions**.
- **Originally,** its loans helped **rebuild countries devastated by World War II. In time, the focus shifted from reconstruction to development,** with a heavy emphasis on infrastructure such as dams, electrical grids, irrigation systems, and roads.
- With the founding of the **International Finance Corporation (IFC) in 1956,** the institution became able to **lend to private companies and financial institutions in developing countries**.
- Founding of the **International Development Association (IDA) in 1960** put greater emphasis

on the **poorest countries,** part of a steady **shift toward the eradication of poverty becoming the Bank Group's primary goal**.
- **International Centre for Settlement of Investment Disputes (ICSID)** founded in **1966** settles **investment disputes** between investors and countries.
- **Multilateral Investment Guarantee Agency (MIGA)** founded in **1988** insures lenders and investors against **political risk such as war**.

International Bank for Reconstruction and Development (IBRD)

- Following the recovery from World War II, the International Bank of Reconstruction and Development broadened its mandate to increasing global economic growth and eliminating poverty.
- The Bank only **finances sovereign governments directly or projects backed** by sovereign governments.
- Today, the IBRD **focuses its services on middle-income countries** or countries where the **per capita income ranges from $1,026 to $12,475 per year**. These countries, like Indonesia, India, and Thailand, are often home to fast-growing economies that attract a lot of foreign investment and large infrastructure building projects.
- At the same time, **middle-income countries are home to 70% of the world's poor people,** as the benefits of this economic growth are unevenly distributed across their populations.
- **Governance of IBRD:**
    - **IBRD Boards of Governors:** The Boards of Governors consist of one Governor and one Alternate Governor appointed by each member country. The office is usually held by the country's minister of finance, governor of its central bank. The Board of Governors delegates most of its authority over daily matters such as lending and operations to the Board of Directors.
    - **IBRD Board of Directors:** The Board of Directors consists of currently 25 executive directors and is chaired by the President of the World Bank Group. Executive Directors are appointed or elected by the Governors. Executive Directors select the World Bank President, who is the Chairman of the Board of Directors. Executive Directors are authorised for daily matters such as lending and operations.
- **IBRD raises most of its funds in the world's financial markets.** This has allowed it to provide more than $500 billion in loans to alleviate poverty around the world since 1946, with its shareholder governments paying in about $14 billion in capital.
- IBRD has maintained a **triple-A rating since 1959. This high credit rating allows it to borrow at low cost** and offer middle-income developing countries access to capital on favourable terms — helping ensure that development projects go forward in a more sustainable manner.
- **IBRD earns income every year from the return on its equity and from the small margin it makes on lending.** This pays for World Bank operating expenses, goes into reserves to strengthen the balance sheet, and provides an **annual transfer of funds to IDA, the fund for the poorest countries**.

International Finance Corporation (IFC)

- IFC is the largest global development institution focused exclusively on the **private sector in developing countries**. The Bank Group has set two goals for the world to achieve by 2030: end extreme poverty and promote shared prosperity in every country.
- It is **a private-sector arm of the World Bank Group,** to advance economic development by investing in for-profit and commercial projects for poverty reduction and promoting development.
- IFC is also a leading mobilizer of third-party resources for projects.
- **Governance of IFC**
    - **IFC Boards of Governors:** The Boards of Governors consist of one Governor and one Alternate Governor appointed by each member country. The office is usually held by the country's minister of finance, governor of its central bank. The Board of Governors delegates most of its authority over daily to the Board of Directors.
    - **IFC Board of Directors:** The Board of Directors consists of executive directors and is chaired by the President of the World Bank Group. Executive Directors are appointed or elected by the Governors. Voting power on issues brought before them is weighted according to the share capital each director represents. The directors meet regularly to

    review and decide on investments and provide overall strategic guidance to IFC management.
- IFC raises virtually all funds for lending activities through the issuance of **debt obligations in international capital markets**. Our borrowings are diversified by country, currency, source, and maturity in order to provide flexibility and cost-effectiveness.
- Since first being rated in 1989, IFC has been **rated triple-A every year by Standard and Poor's and by Moody's**. Our high credit rating is essential for maintaining our ability to access markets globally and to maintain our low cost of funding.
- IFC makes loans to businesses and private projects generally with maturities of seven to twelve years. It determines a suitable repayment schedule and grace period for each loan individually to meet borrowers' currency and cash flow requirements. It may provide longer-term loans or extend grace periods if a project is deemed to warrant it.
- It does **not have a policy of uniform interest rates for its investments**. The **interest rate is to be negotiated in each case** in the light of all relevant factors, including the **risks involved** and any right to participation in profits, etc.
- Through its **Global Trade Finance Program,** the IFC **guarantees trade payment obligations of more than 200 approved banks** in over 80 countries to mitigate risk for international transactions. The Global Trade Finance Program provides **guarantees to cover payment risks for emerging market banks** regarding promissory notes, bills of exchange, letters of credit, bid and performance bonds, **supplier credit for capital goods imports, and advance payments**.
- IFC attempts to **guide businesses toward more sustainable practices** particularly with regards to having good governance, supporting women in business, and proactively combating climate change.

International Development Association (IDA)

- IDA is the part of the World Bank that **helps the world's poorest countries**. Overseen by 173 shareholder nations, IDA aims to reduce poverty by providing loans (called "credits") and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions.
- IDA is one of the largest sources of assistance for the world's 75 poorest countries, 39 of which are in Africa, and is the single largest source of donor funds for basic social services in these countries.
- IDA supports a **range of development activities** that pave the way toward **equality, economic growth, job creation, higher incomes, and better living conditions. IDA's work** covers **primary education, basic health services, clean water and sanitation, agriculture, business climate improvements, infrastructure, and institutional reforms**.
- **Governance of IDA:**
    - **IDA Boards of Governors:** The Boards of Governors consist of one Governor and one Alternate Governor appointed by each member country. The office is usually held by the country's minister of finance, governor of its central bank. The Board of Governors delegates most of its authority over daily matters such as lending and operations to the Board of Directors.
    - **IDA Board of Directors:** The Board of Directors consists of executive directors and is chaired by the President of the World Bank Group. Executive Directors are appointed or elected by the Governors.
- IDA lends money on concessional terms. This means that IDA credits have a zero or very low-interest charge and repayments are stretched over 30 to 38 years, including a 5- to 10-year grace period. IDA also provides **grants to countries at risk of debt distress**.
- To borrow from the **IDA's concessional lending programs,** a country's gross national income (GNI) **per capita must not exceed $ 1,145 (the fiscal year 2019)**.
- IDA also provides significant levels of **debt relief** through the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

International Centre for Settlement of Investment Disputes (ICSID)

- ICSID was established in 1966 by the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID Convention). The ICSID Convention is a multilateral treaty formulated by the Executive Directors of the World Bank to further the Bank's objective of promoting international investment.

- States have agreed on ICSID as a forum for investor-State dispute settlement in most **international investment treaties** and in numerous **investment laws and contracts**.
- Bilateral investment treaties (BITs) are proliferating, many such treaties contain text that refers present and future investment disputes to the ICSID.
- ICSID provides for settlement of disputes by conciliation, arbitration or fact-finding.
- Governance of ICSID
    - **Administrative Council:**
        - One representative of each Member State, and one vote per State.
        - Adopts ICSID arbitration, conciliation and fact-finding rules.
        - Adopts an annual budget and approves annual report.
        - **Elects Secretary-General and Deputy Secretaries-General.**
        - Each State designates persons to a list of arbitrators and conciliators.
    - **Secretariat:**
        - Led by Secretary-General. Provides technical and administrative support to proceedings.
        - Offers training and technical assistance to governments and the public.
        - Contributes to the development of investment law through publishing and outreach.
    - **ICSID Panel of Arbitrators and Panel of Conciliators:**
        - Each ICSID Member State may designate four persons to each Panel.
    - **Conciliation Commission or Arbitral Tribunal:** an Arbitral tribunal or Conciliation Commission is constituted by Secretary-General. In most instances, the tribunals consist of **three arbitrators:** one appointed **by the investor,** another appointed **by the State,** and the third, **presiding arbitrator** appointed **by agreement of both parties**.
- Each case is considered by an **independent Conciliation Commission** or **Arbitral Tribunal,** after hearing evidence and legal arguments from the parties. A dedicated ICSID case team is assigned to each case and provides expert assistance throughout the process.
- An ICSID award according to **Article 53 of the ICSID Convention** is final and binding and immune from appeal or annulment, other than as provided in the ICSID Convention.

Multilateral Investment Guarantee Agency (MIGA)

- MIGA is a member of the **World Bank Group** and its mandate is to promote cross-border investment in developing countries by providing guarantees (**political risk insurance** and credit enhancement) to investors and lenders.
- MIGA was created to **complement public and private sources of investment insurance** against **non-commercial risks** (currency inconvertibility and transfer restriction; government expropriation; **war, terrorism,** and **civil disturbance; breaches of contract;** and the non-honouring of financial obligations) in developing countries.
- **MIGA convention** that defined its core mission was **submitted to the Board of Governors of the IBRD** in 1985 and went into establishing MIGA as the newest member of the World Bank Group in 1988.
- The Convention can be amended by the Council of Governors of MIGA.
- The agency opened for business as a legally separate and financially independent entity. **Membership was open to all IBRD members.**
- **Governance of MIGA**
    - **Council of Governors:** MIGA is governed by its Council of Governors which represents its member countries. The Council of Governors holds corporate authority, but primarily delegates such powers to MIGA's Board of Directors.
    - **MIGA Board of Directors:** The Board of Directors consists of directors and votes on matters brought before MIGA. Each director's vote is weighted in accordance with the total share capital of the member nations that the director represents.
- MIGA aims to **promote foreign direct investment into developing countries** to support **economic growth, reduce poverty and improve people’s lives**.

World Bank Group Membership

- To become a member of the Bank, under the **IBRD Articles of Agreement,** a country must first join the International Monetary Fund (IMF).
- Membership in IDA, IFC, and MIGA are conditional on membership in IBRD.

- Membership in ICSID is available to IBRD members, and those which are a **party to the Statute of the International Court of Justice (ICJ),** on the invitation of the ICSID Administrative Council by a vote of two-thirds of its members.

World Bank Group and India

- **India was one of the forty-four original signatories** to the agreements reached at **Bretton Woods** that established the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF).
- It was also one of the **founding members of the IFC in 1956 and the IDA in 1960**. India later became a member of the MIGA in January 1994.
- **India is not a member of ICSID.** India claimed ICSID **Convention is not fair, convention's rules for arbitration leaned towards the developed countries**. In ICSID, the Chairman of the Centre is the Chairman of the World Bank. The Chairman appoints the arbitrators. If the arbitration award is not satisfactory, then the aggrieved party would appeal to a panel, which will also be constituted by the ICSID. There is **no scope for a review of the award by an Indian court, even if the award is against public interest**.
- IBRD lending to India commenced in 1949 with a loan to the **Indian railways;** the first investment by the IFC in India took place in 1959, and by IDA in 1961 **(a highway construction project)**.
- During the 1950s, the IBRD was India's sole source of World Bank borrowings.
- By the end of the decade, India's mounting debt problems became an important factor in the launch of the IDA, the soft loan affiliate of the World Bank (WB) group.
- By the end of the 1960s, the United States, until then India's largest source of external resources, sharply cut its bilateral aid program. Since then, the WB emerged as the most important source of official long-term finance.
- During the 1960s and 1970s, the IDA accounted for nearly three-fourths of all WB lending to India and, in turn, India was by far the largest recipient of IDA funds, accounting for more than two-fifths of all its lending.
- The subsequent decade, **with China joining the WB in 1980** and accordingly entering its own claims to limited IDA resources, the worsening economic fortunes of Africa, and India's better performance, saw a **sharp decline in India's share in IDA**.
- Instead, its share of **IBRD lending grew sharply in the 1980s,** buoyed by its improving **credit-worthiness** and the Indian government's **waning inhibitions** with regard to **non-concessional borrowing**.
- **During the 1980s,** while the WB shifted its emphasis to **stress** policy reforms and **greater economic liberalization,** it continued to **lend to poorly governed public sector institutions** in India and was muted in its criticism of India's closed economy.
- The **lending portfolio changed sharply after the 1991 macroeconomic crisis**. In the immediate aftermath, India became one of the last important WB borrowers to partake of **structural adjustment lending,** which **supported policy reforms in finance, taxation, and the investment and trade regime**.
- India is currently classified as a “blend” country — defined as one in **transition from lower middle-income to middle-income —** and is creditworthy for lending from both IDA and IBRD.
- India is the largest IBRD client of the World Bank. Between 2015 and 2018, the World Bank lent around $10.2 billion to India.
- The World Bank Group (WBG) has approved a $25-30 billion commitment plan for India for the period 2019-22.
- **MIGA Performance Standards** are environmental and social standards which help to structure and implement sustainable projects. For Indian market, one of the options is **a breach of contract insurance** which MIGA would offer to investors. **In case the government doesn’t perform its obligation,** under the contract arrangement, **then MIGA can come and cover that risk for investment**.

World Bank Reforms

- Some critics have pointed out that the World Bank really caters to the agenda of World Capitalism in the garb of its **“Structural Adjustment Programme’ (SAP)** and continues to be dominated by rich countries. SAP is a set of "free market" economic policy reforms imposed on developing countries by the World Bank as a condition for receipt of loans.

- It is argued **SAP policies have increased the gap between rich and poor** in both local and global terms.
- The **emerging new economic powers,** particularly **India and China, and some other Asian and Latin American countries** of the world should be given due place and role..
- **The leadership succession debate** should be used to create space for reflection on the purpose of the multilateral body, the substantive role it should play in the future, the need to **strengthen inclusive multilateralism,** and the actions needed to **bolster the position of emerging economies** and developing countries.
- **Failure of World Bank to adapt to the changing world order** may see rising economies going their own way.
    - Eg. Establishment of **the Asia Infrastructure Investment Bank (AIIB)** by China.
    - Such a development would signify the emergence of multi-polarity without multilateralism, and create a climate of conflicting interests and values among a diverse group of countries.
- Deep reforms of the World Bank are necessary as part of rethinking the current world order, and giving rising powers and developing countries a meaningful voice in this institution.