# International Bank for Reconstruction and Development (IBRD)

The International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank, is an international financial institution whose purposes include assisting the development of its member nation's territories, promoting and supplementing private foreign investment and promoting long-range balance growth in international trade.

The World Bank was established in December 1945 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. It opened for business in June 1946 and helped in the reconstruction of nations devastated by World War II.

Since 1960s the World Bank has shifted its focus from the advanced industrialized nations to developing third-world countries. Since the IMF was designed to provide temporary assistance in correcting the balance of payments difficulties, an institution was also needed to assist long-term investment purposes. Thus, IBRD was established for promoting long-term investment loans on reasonable terms.

The World Bank (IBRD) is an inter-governmental institution, corporate in form, whose capital stock is entirely owned by its member-governments. Initially, only nations that were members of the IMF could be members of the World Bank; this restriction on membership was subsequently relaxed.

**Objectives of IBRD**

**1.** To provide long-run capital to member countries for economic reconstruction and development.

**2.** To induce long-run capital investment for assuring Balance of Payments (BoP) equilibrium and balanced development of international trade.

**3.** To provide guarantee for loans granted to small and large units and other projects of member countries.

**4.** To ensure the implementation of development projects so as to bring about a smooth transference from a war-time to peace economy.

**5.** To promote capital investment in member countries by the following ways;

a) To provide guarantee on private loans or capital investment.

b) If private capital is not available even after providing guarantee, then IBRD provides loans for productive activities on considerate conditions.

**Functions of IBRD**

World Bank is playing main role of providing loans for development works to member countries, especially to underdeveloped countries. The World Bank provides long-term loans for various development projects of 5 to 20 years duration. The main functions can be explained with the help of the following points:

**1.** World Bank provides various technical services to the member countries. For this purpose, the Bank has established "The Economic Development Institute" and a Staff College in Washington.

**2.** Bank can grant loans to a member country up to 20% of its share in the paid-up capital.

**3.** The quantities of loans, interest rate and terms and conditions are determined by the Bank itself.

**4.** Generally, Bank grants loans for a particular project duly submitted to the Bank by the member country.

**5.** The debtor nation has to repay either in reserve currencies or in the currency in which the loan was sanctioned.

**6.** Bank also provides loan to private investors belonging to member countries on its own guarantee, but for this loan private investors have to seek prior permission from those counties where this amount will be collected.

## International Finance Corporation (IFC)

International Finance Corporation (IFC) was setup in 1956 with a view to provide long-term loans and risk or equity capital to private sector enterprises, and to encourage the flow of foreign private capital to developing countries through the establishment and expansion of capital markets and financial institutions in those countries. The unique feature of the IFC is that it gives assistance for promoting the development of financial markets or the market-oriented financial sectors. It advises governments on the legal, fiscal and regulatory frameworks needed for this purpose. It attracts international investors to the securities markets in host countries by sponsoring, underwriting and distributing the shares of both individual companies and funds that invest in those securities. It does not supply funds to the governments and it does not require government guarantees. Its capital is provided by its 135 member countries.

**Objectives of IFC**

IFC's objective is to assist economic development by encouraging the growth of productive private enterprise in its member nations, particularly in the underdeveloped areas. Thus, it laid down the following objectives:

**1.** To invest in productive private enterprises, in association with private investors, and without government guarantee of repayment, in cases where sufficient private capital is not available on reasonable terms.

**2.** To serve as a clearing house to bring together investment opportunities, private capital (both foreign and domestic) and experienced management.

**3.** To help in stimulating the productive investment of private capital, both domestic and foreign.

**IFC's Vision, Values, & Purpose**

IFC's vision is that people should have the opportunity to escape poverty and improve their lives.

IFC's values are excellence, commitment, integrity and teamwork.

IFC's Purpose is to create opportunity for people to escape poverty and improve their lives by;

**i.** Promoting open and competitive markets in developing countries.

**ii.** Supporting companies and other private sector partners where there is a gap.

**iii.** Helping to generate productive jobs and deliver essential services to the underserved.

In order to achieve its Purpose, IFC offers development impact solutions through: firm-level interventions (direct investments and advisory services); standard-setting; and business enabling environment work.

**IFC's Shared Mission**

IFC, as the private sector arm of the World Bank Group, shares its mission:

• To fight poverty with passion and professionalism for lasting results.

• To help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors.

**Goals of IFC**

- Sustainable agriculture opportunities.
- Improve health and education.
- Increase access to financing for microfinance and business clients.
- Advance infrastructure.
- Help small business grow revenues.
- Invest in climate health.

**Products & Services**

IFC is a dynamic organization, constantly adjusting to the evolving needs of clients in emerging markets. It is no longer defined predominantly by the role in providing project finance to companies in developing countries. It also has:

**i.** Developed innovative financial products

**ii.** Broadened capacity to provide advisory services

**iii.** Deepened corporate governance, environmental and social expertise

**Member Countries**

IFC has 181 member countries. To join IFC, a country must:

**i.** Be a member of the World Bank (IBRD);

**ii.** Have signed IFC's Articles of Agreement; and

**iii.** Have deposited with the World Bank Group's Corporate Secretariat an Instrument of Acceptance of IFC's Articles of Agreement.

## International Development Association (IDA)

IDA is the largest source of concessional finance for the world's 75 poorest countries, 39 of which are in Africa. Resources from IDA bring positive change to the 1.3 billion people who live in IDA countries.

With the ratification of the Sustainable Development Goals (SDGs) in 2015, along with a historic agreement in Addis Ababa on ways to mobilize financing needed for the SDGs, the world has a new roadmap for ending poverty by 2030. The International Development Association (IDA) is poised to play a key role in this mission, by catalyzing trillions of dollars in needed investment – public and private, national and global—and translating the SDGs into country-led action.

**History behind IDA**

- IDA was conceptualized to provide 'soft-loans' to developing countries to build infrastructure and improve quality of life.
- With an initial funding of $912.7 million, IDA was launched on September 24, 1960 with 15 signatory countries - Australia, Canada, China, Germany, India, Italy, Malaysia, Norway, Pakistan, Sudan, Sweden, Thailand, United Kingdom, United States, and Vietnam.

**Objectives:**

**The following are the principal objectives of the IDA:**

1. To provide development finance on easy terms to less developed member countries.

2. To promote economic development, increase productivity and thus, raise the standards of living in the underdeveloped areas.

**Membership and Organization of the IDA**

Any member country of the World Bank can become a member of the IDA by subscribing to the IDA at the rate of 5% of its existing World Bank share capital subscription quota. By the end of June 1975, out of 125 member countries of the World Bank, 114 countries became the members of IDA. Of these, 20 were developed countries and the rest were developing countries.

The IDA has been organized similar to that of the World Bank. The management setup of the IDA consists of Board of Governors, Executive Directors and a President, all of whom holding similar positions in the World Bank. They serve as ex-officio members in the IDA.

By the end of June 1992, 142 countries were the members of the IDA. Out of these, 24 were developed countries while the remaining were less developed countries. Recently, China and some East European countries have become the members of the IDA. At present, about 179 countries are its members.

**Working**

Thus, IDA is looked upon as a means of furthering the development activities of the World Bank and as a supplementary to the Bank's activities. Under its charter, the IDA is to support projects which are calculated to contribute to the development of the country concerned, whether they are directly productive or not.

The IDA credits would be called development credits to distinguish them from conventional loans, and these would be repayable mostly in the currency lent rather than in the currency of the borrower. Since IDA charges nominal rates of interest on its loans, it has also been nicknamed the "Soft-Loan Window."

IDA has granted a number of credits to India for her development schemes. The grant of credits for development projects given by IDA to India has been in the nature of a continuous flow. But for the funds that have been made available by IDA to India, our development pace would have been considerably slower.

In fine, it may be said that the IDA is expected to make a distinct contribution to the economic development of backward nations, furthering their development projects and supplementing the activities of the World Bank. Moreover, unlike the World Bank loans which are meant to cover only the foreign exchange costs, the IDA loans can be utilized to finance both foreign exchange and local currency costs.

**Achievements of IDA**

In order to structure the economy of less developed countries, the World Bank set up the **international development association** in 1960. It is an **aiding centre for several developing countries** who look up to it for financial assistance. It is an association of donor countries who have come under the aegis of the World Bank to help developing or less developed countries whose paying capacity is limited due to their socioeconomic problems.

During the period from 1964 to 1968, the IDA extended an **annual average amount of credit of 0.3 billion dollars** which increased to 0.8 billion and 1.6 billion dollars during the years between 1969 and 1978. The **annual average increased substantially** to 3 53 billion dollars during 1984-88 which almost doubled (6.4 billion dollars) during 1990-1994. Though the IDA maintained this level of lending in the subsequent three years, it decreased to 4.6 billion dollars in 1997. However, it was 7.5 billion dollars in 1998 and 6.8 billion dollars in 1999.

During the fiscal years 2000 and 2001, the IDA sanctioned credit aggregating to 4.4 billion dollars and 6.8 billion dollars respectively. During the period from 1960 to 2001, it **sanctioned credit amounting to 127 billion dollars**. Countries in South Asia, East Africa and West Africa were the major beneficiaries of the credit scheme.