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MODULE 1: WORLD BANK GROUP BASICS



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What is the World Bank Group?

The World Bank Group (WBG) is a public international body owned and directed by its member countries. Each year, the WBG provides billions of dollars in loans, grants and other types of financial and technical assistance to governments and private companies in Africa, Asia, the Middle East, Latin America, and Eastern Europe. Its operations influence laws and regulations, government spending, and private sector investment decisions in countries around the world. Whether you track your country's national budget, provide support to communities displaced by a mine or help people access safe drinking water, it is likely that the activities of the World Bank Group affect your work. As a public institution, the World Bank Group should be accountable to the public of its member countries—in particular the poor on whose behalf it ostensibly operates.

The World Bank Group is made up of **five separate arms**. Two of those arms—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)—work primarily with governments and together are commonly known as “the World Bank”. Two other branches—the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA)—directly support private businesses that invest in developing and transition countries. The fifth arm is the International Center for Settlement of Investment Disputes (ICSID), which arbitrates disagreements between foreign investors and governments.

What does the World Bank Group do?

The World Bank Group was originally established to support reconstruction in Europe after World War II, but has since reframed its mission and expanded its operations both geographically and substantively. Today, the World Bank Group’s mission is to end extreme poverty and promote shared prosperity—an important commitment to which

IS THE WORLD BANK GROUP PART OF THE UN?

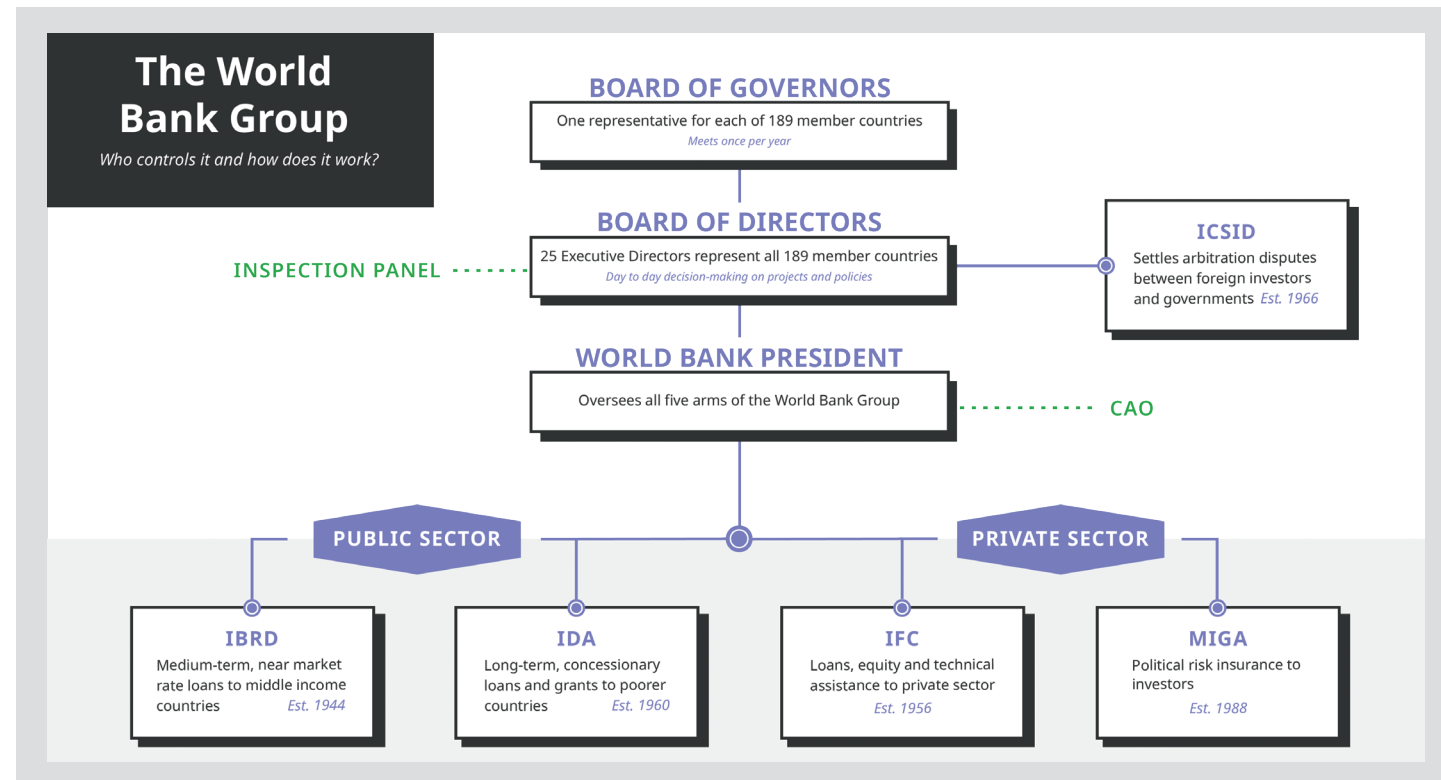
Although the World Bank Group is formally a specialized agency under the Economic and Social Council (ECOSOC) of the United Nations (UN) system, it does not share the UN decision-making structure, nor is it directly accountable to the UN.

PRESSURE TO LEND

Structural imperatives within the Bank drive lending in ways that may detract from poverty alleviation goals. For instance, the Bank finances its administrative budget from profits derived from its finance and lending operations. Internally, Bank staff is promoted largely on the volume of funds they process, not on the effectiveness of Bank operations—contributing further to the pressure to lend.

the Bank should be held and against which its activities should be evaluated. In its first year of operation, 1946, the Bank had 38 member countries and lent less than US \$500 million. Today, the World Bank Group has 189 member countries and provides over US\$60 billion in loans, grants, investments, and guarantees annually for activities ranging from agriculture to trade policy, from health and education to energy and mining. The expansion of the Bank’s operations has been driven in large part by the institution’s need to remain relevant in an increasingly competitive international lending climate. At the same time that the Bank has expanded the scope of its support to governments, it has also increased its direct engagement with private companies through the IFC and MIGA.

The Bank’s tendency to extend itself into new areas is often referred to as “mission creep,” and signifies an increase in the Bank’s influence beyond its original narrow economic focus. The institution often adeptly responds to critiques of its operations by inventing new work for itself and refashioning itself as an expert on the issues of concern, sometimes causing new problems in the process. For example, civil society criticisms of the environmental damage caused by Bank-backed projects spurred the Bank to remake itself as a leading environmental expert and champion of biodiversity conservation beginning in the late 1980s. Through this “greening” process the Bank has increased its influence over decisions about land use and natural resource management in many countries, and deflected attention from operations which continue to negatively impact the environment. The Bank’s most powerful members—the G-8 governments poverty and promote shared prosperity—an important commitment to which the Bank should be held and against which its activities should be evaluated. In its first year of operation, 1946, the Bank had 38 member countries and lent less than US \$500 million. Today, the World Bank Group has 189 member countries and provides over US \$60 billion in loans, grants, investments, and guarantees annually for activities ranging from agriculture to trade policy, from health and education to energy and mining. The expansion of the Bank’s operations has been driven in large part by the



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The World Bank Group as knowledge broker: The Bank has cornered the market on development research, publishing numerous books and reports that frame the debate on development issues. In the absence of alternative sources of information, many countries get their information about economic policies and development models from the World Bank Group. Bank lending is often tied to a borrower's acceptance of such Bank-generated knowledge and advice (referred to as "conditionality," see box in the next section).

The World Bank Group as gatekeeper to development finance: Since many donors take their lead from the World Bank Group, the institution's financing decisions and evaluations of country development strategies affect

**WITH STRINGS ATTACHED:
CONDITIONALITY IN BANK FINANCING**

The Bank typically requires certain actions of borrowing countries in advance of loan/grant approval and/or in the course of a project's implementation—known as "conditions" or "conditionality." Conditionality became particularly controversial in the context of structural adjustment loans in the 1980s, when the Bank used its lending to advance a particular set of macroeconomic reforms that came to be known as the "Washington Consensus." Investment projects often contain conditionality as well.

Conditions can range from requiring a government to privatize its state-owned companies or adopt lower trade tariffs, to mandating new budget and procurement procedures. On the positive side, conditionality in projects can include provisions to make budgets more transparent or to pass right to information legislation. The Bank's imposition of controversial conditions on borrowing governments has been heavily criticized over the years, as a violation of national sovereignty and an undemocratic way to force reforms that can have substantial consequences on people and planet.

On the other hand, Bank lending comes with requirements to meet certain environmental and social standards. These requirements, which are seen as positives by civil society and human rights activists, are sometimes labeled as conditionalities by governments that view these requirements as overly costly and time-consuming.



borrowing country access to capital from a broad spectrum of sources. Both the World Bank Group's own lending and other donors' decisions are shaped by the Bank's research and analysis—in particular, by Bank studies like the Country Policy and Institutional Assessments (CPIA), the annual “Doing Business” report, and Investment Climate Assessments (ICA), which rate countries largely on the basis of their economic policies and openness to foreign investment. The Bank's gatekeeper role is much stronger for aid-dependent countries without credit ratings than for countries that have access to international capital markets.

The World Bank (IBRD and IDA)

The World Bank lends money to low- and middle-income governments for two general uses: investment projects and policy reforms. Investment project lending typically supports public works such as water systems, roads and schools. The World Bank also lends money for economic, institutional or other policy reforms, known as “development policy lending.” These reforms can influence the amount and composition of public spending in your country and the design of your government's economic and social policies, affecting things like the cost of electricity and water, labor laws and investment regulations.

World Bank lending can take the form of loans or grants, and the poorest countries often receive both. In recent years, the Bank has increased the proportion of its financing provided through grants. While grants have the significant advantage of not contributing to a country's debt, like loans they still require governments to undertake certain actions in order to access financing.

IFC and MIGA: Supporting the private sector

While the World Bank (IBRD and IDA) provides credit and non-lending assistance to governments, the IFC provides loans and equity financing, advice and technical services to the private sector. Although the IFC is a public entity, its clientele consists of transnational, national and local companies. The operations of these private enterprises often privilege profitability over sustainability and “business confidentiality” over the public's right to know. As a result, it is frequently difficult for the public to measure or influence the development impacts of the IFC's activities.

THE WORLD BANK GROUP AND THE IMF

The World Bank Group and the International Monetary Fund (IMF) were created together at the Bretton Woods Conference in 1944. Although they were designed to serve distinct but complementary roles. The IMF was tasked with maintaining stability of exchange rates in the global economy and promoting expanded trade through short-term loans for general budget support and economic policy advice to any of its member countries. The World Bank Group was tasked with helping to rebuild specific sectors of countries' economies and promote economic growth and development by providing long-term loans to governments of its poorer member countries for public works and other investments to boost economic activity.

Today, the headquarters of the two institutions sit across the street from one another in Washington, DC, and although they don't always communicate openly they often function in tandem to exert pressure on borrowing governments. Loans from the two institutions frequently contain cross-conditionality, meaning that the policy reforms or actions required of a government in order to access funds from one institution may be tied to requirements specified by the other institution. Beyond this direct influence on governments through financing, both institutions, and the IMF in particular, play gate-keeping functions, influencing a countries' access to financing from other public and private sources. Because the World Bank Group and many other donors will only lend to governments that have no outstanding debts to the IMF and are complying with IMF policy recommendations, the IMF wields tremendous power over whether countries have access to external financing at all. At the same time, the World Bank Group's analysis and lending operations influence the amount and type of funds countries get from other donors.

DOES THE WORLD BANK GROUP FUND CIVIL SOCIETY?

In 2013, the World Bank Group announced a new funding arm that would support civil society organizations directly. The fund, called the Global Partnership for Social Accountability, or GPSA, issues calls for proposals for civil society from countries whose governments have opted in to participation in the fund. Proposals funded by the GPSA are for large projects focused on social accountability.

WHO DECIDES?

Decisions at the Board of Directors are ostensibly taken on a “consensus” basis rather than by strict vote. However, the allocation of voting power forms the backdrop of decisions and Bank management closely follows whether a voting majority of members supports a particular project or policy.

The IFC is more influential than numbers alone suggest. Through its lending and advisory activities, it mobilizes funds from other lenders. In recent years, the IFC has also exerted an increasing influence on the lending standards followed by other international financiers (such as private banks), particularly when they operate in countries without strong standards.

MIGA's stated goal is to help developing countries attract and retain private investment by providing companies with insurance against loss of their assets due to war, expropriation or other political instability. In addition to offering insurance to private companies, MIGA mobilizes guarantees from other sources for investors and assists host governments with legal services and strategic advice about investment. MIGA has been criticized for not ensuring that local populations and the environment are protected against the risks that investments may pose to them. It is active in many “risky” post-conflict-countries, for example helping investors profit in contexts where local populations may not be in a position to defend their own interests.

Who runs the World Bank Group?

The World Bank Group is a profoundly political institution controlled by the strongest of its member governments, despite the fact that the Bank's charter forbids it from engaging in politics. The World Bank Group's headquarters are located in Washington, DC, where over half of its approximately 12,300 employees work. The remaining World Bank Group staff work in more than 100 country offices around the world.

The World Bank Group is jointly owned by its **189 member country governments**, each of which holds shares in the Bank in rough proportion to the size of its economy. The size of each country's share determines the weight of its vote on the Bank's board. This “one-dollar-one-vote” structure affords richer countries greater power in decision-making processes at the institutions than poor, borrowing countries. Ultimate decision-making authority rests with the Board of Governors, to which each member country appoints a representative. For most countries, the governor is the Minister of Finance (or the national equivalent, e.g. the Treasurer). The **Board of Governors** meets once a year

at the IMF/World Bank Annual Meetings to review and set broad policies and priorities. Day-to-day decisions at the World Bank Group are taken by the **Board of Directors**. The board has 25 members, each representing one or more member governments. Eight of the Bank's largest shareholders—the United States, Japan, Germany, France, the United Kingdom, China, Saudi Arabia and Russia—each have their own directors on the Board. In contrast, all 47 sub-Saharan African countries are represented by just three executive directors and command less than 6% of all voting shares. The board operates largely behind closed doors, without public access to its deliberations or details about its decisions. Full board meetings are held at least twice a week (currently on Tuesday and Thursday) to approve all WBG financing, and to monitor the Bank Group's day-to-day work. Smaller board committees meet almost daily.

The **President** of the World Bank Group is neither chosen democratically nor is s/he representative of all of the Bank's member countries. By tradition, the World Bank Group President is a US citizen, and the IMF Managing Director is a European. Although the World Bank Group President is officially approved by the Board of Directors, in practice the candidate named by the United States has always been approved. All World Bank Group departments report to the President who, importantly, also acts as the chair of the Board of Directors.

The “democratic deficit” in the governance of the institutions has come under a storm of criticism in recent years. Although there was much controversy surrounding the last appointments of the WB and IMF leaders, the illegitimate tradition of allowing the US and Europe to head the two most powerful global financial institutions continues.

Where does the World Bank Group get its money?

Although member countries pledge subscription fees to the World Bank Group, the bulk of the capital the IBRD uses to finance projects comes from selling bonds on the international financial markets. World Bank Group bonds are considered sound investments, enabling the institution to make a good profit. In 2019, for example, the IBRD raised US \$54 billion in bond sales. Most of the member government pledges are used as collateral to

MEMBERSHIP AT THE WORLD BANK GROUP

To be a member of any part of the WBG, a country must first be a member of the IMF and IBRD. Countries that belong to IDA are divided into two groups, according to their economic standing. Most donor countries are 'Part 1', while most borrowers are 'Part 2'. For more detailed information about which parts of the WBG your country belongs to, go to the WB website at: <https://www.worldbank.org/en/who-we-are>.

WORLD BANK PRESIDENTS, PAST AND PRESENT

The World Bank's reins have always been in the hands of an American man. Beginning with Eugene Meyer in 1946, the post of World Bank President has been held by 13 different men. Prior to their tenure at the World Bank, these men often worked as investment bankers, politicians or at the Department of Defense.

THE US AND THE BANK

Without a doubt the United States exercises great influence over the World Bank Group. **The US possesses the largest share of voting power and maintains enough votes to block any decision requiring a super-majority** (such as changes to the Bank's Articles of Agreement). Critically, the US effectively controls the appointment of the Bank's President. The US Treasury Department devotes significant resources to reviewing Bank operations and given the Bank's location in Washington, US Government representatives regularly interact with Bank officials. However, it is not quite accurate to say that the US simply dominates the Bank. Coalitions of other members often block US initiatives. European governments occupy many seats on the Bank's Board and can derail US initiatives. In recent years, the Bank's largest borrowers, such as India, China, and Brazil have played a more assertive role in challenging US priorities.

PASSING THE HAT FOR IDA

Civil society groups have used the IDA replenishment process to secure reforms of the World Bank Group. North/South civil society coalitions have pressured IDA donors to include strengthened environmental and social policies as conditions of their replenishment contributions. Furthermore, groups in the US have worked with legislators to demand reforms as they appropriate US funds to IDA. For example, the Bank's information disclosure policy and the Inspection Panel were created as the result of such pressure.

guarantee the Bank's bonds, some of which are held by governments and central banks. The Bank then lends to borrowing countries at a slightly higher interest rate than the rate they pay their bondholders. Borrowing countries repay their loans, enabling the Bank to pay off the investors and pocket the difference. The result? The IBRD makes a profit every year, which it uses to finance the Bank's administrative budget and to provide funds to its soft-loan window, IDA. Beyond these subsidies from IBRD earnings, the majority of the money that IDA provides to poorer countries comes from donor contributions, supplemented by loan repayments. The major donors to IDA, called the IDA Deputies, meet every three years to discuss new priorities for IDA and to determine new contributions. From 2017-2020, IDA pledged US \$75 billion to poor countries. Thus, donor countries exert significant influence on IDA strategies and operations, not just through their voting shares on the Board of Directors, but by setting policies for IDA—and at times the entire Bank—through the IDA replenishment process. The most recent IDA replenishment process completed at the end of 2019.

Who represents your country at the World Bank Group?

The minister of finance or national equivalent is the primary member country representative at the Bank, and thus is the main interlocutor with the Bank when loans are being negotiated. However, ministers of finance often do not represent all of the interests in a country. The ministry's policy priorities may not be congruent with those of other ministries, let alone the interests of the majority of the country's population.

In some countries, **parliamentarians** or specific legislative committees must review and approve loans undertaken by the government. In those countries, civil society may be able to work with members of parliament to increase public scrutiny of the projects and policies supported by aid money. However, parliamentarians often lack sufficient information about the structure and functioning of the World Bank Group or the design and content of specific development operations to exercise effective oversight.

Who else should have a say?

The **public!** As an institution using public funds and operating in the name of the people in the countries in which it operates, the World Bank Group should be accountable to the public. Whether directly or through their elected legislators, people should be able to influence the institution's operations.

In donor countries such as the US, a significant percentage of tax dollars allocated for overseas development assistance may be funneled through the World Bank Group. Thus, taxpayers have both a right and obligation to demand that the funds are not used in ways that harm people or the environment. In borrowing countries, where residents are the people in whose name projects are undertaken, individuals and communities have a right to influence the development decisions that affect their lives. They too can demand that their own representatives at the institutions and their ministries of finance provide opportunities for their voices to be heard before final decisions are taken.

Elected legislators should play a role in deciding whether and how IFIs operate in their country, consistent with the interests and needs of the population. Increased parliamentary oversight of the IFIs is necessary to keep the international financial institutions accountable to elected government representatives and the public at large, rather than solely to the finance ministers of the most powerful countries.

In brief:

- The World Bank Group is comprised of four financing bodies: IDA and IBRD provide loans and grants to governments, while IFC and MIGA provide financing and insurance to private companies.
- The World Bank Group's stated mission is to end poverty and promote shared prosperity in a sustainable way. Its operations and impacts should be evaluated against this commitment.
- A public institution, the Bank is directed by member country governments with voting power roughly divided according to the amount a country contributes to the Bank, on a "one-dollar-one-vote" formula, giving donor countries far greater decision-making power than borrowing countries.



QUICK REFERENCE: WORLD BANK GROUP CONTACT INFORMATION

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Integrity Vice Presidency

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World Bank Group Contacts in your country

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Email: _____
Website: _____

Country Office

Name: _____
Email: _____
Website: _____

Country Director or Manager

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In-country NGO/Civil Society Liaison or Communications Officer

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Email: _____
Website: _____

Other contacts: