THE WORLD BANK: MYTH AND REALITY

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Although World Bank net income in recent years has exceeded $1 billion a year, and its lending to developing member countries is at record levels, a number of myths about The International Bank for Reconstruction and Development (IBRD) still flourish. Permit me to dispel these.

But first, a short background comment may be in order. IBRD, more commonly known as the World Bank, is the oldest of the multilateral development banks. It commenced operations in 1946 and has earned a profit in every year since 1947. Owned and controlled by its 151 member countries, the IBRD borrows the equivalent of about $10 billion a year at market-based rates. It lends, typically for 12-20 years, to developing member countries for economically productive projects and programs at loan charges that are slightly above its borrowing costs.

Myth I: World Bank lending over the last five years has been insubstantial.

The facts are that IBRD's gross disbursements in the last five years equal those made in its first 35 years of operations. Its net disbursements in the last five years (gross disbursements less loan repayments) were greater than its accumulated net disbursements in the first 35. About 45 percent of the IBRD's cumulative loan commitments ($126 billion from 1946 to 1986) were made in the last five years.

The IBRD is prepared to lend and has lent for economically productive purposes, particularly where there is an economic development plan in place. It does not make quick-fix loans to provide cash flow to private lenders or to the borrowing countries. Governments would not support that kind of lending operation. Bank staff are not automatic teller machines. The financial markets would not find that kind of lending operation acceptable.

Myth II: The IBRD is not a leveraged institution. It needs increased financial resources in the form of capital increases from governments to increase its lending.

Not so, if by financial resources we mean budgetary outlays from member governments. Capital need only be "subscribed" and ordinarily is in the form of callable, not paid-in, capital. Callable capital can never be called for loan disbursements or for administrative expenses. It can be called only to pay obligations to holders of our bonds and notes, and of our

guarantees. It is, therefore, a contingent liability of the member governments not requiring a budgetary outlay for continuing operations.

The IBRD has leveraged small amounts of paid-in capital to borrow quite subtantial amounts at market rates of interest. Callable capital assures investors that member governments stand behind IBRD and also serves as a limit on the IBRD's risk taking by limiting its disbursed loans and guarantees to its capital and reserves. Under its Articles of Agreement, the Bank may not have disbursed loans outstanding that exceed its equity (paid-in capital, reserves and accumulated net income) and its callable capital.

How has the IBRD leveraged its paid-in capital? Since 1968, governments have paid in about $2.8 billion of capital available for lending. Since 1968, however, loan commitments rose by $114 billion from $12 billion to $126 billion at June 30, 1986.

In 1966, the IBRD's paid-in capital available for lending amounted to 40 percent of its disbursed and outstanding loans and 60 percent of its debt. By June 30, 1986, such paid-in capital represented about 8 percent of loans and 7 percent of debt.

Between June 1960 and June 1986, the IBRD's paid-in capital available for lending increased about three-fold to $4.7 billion while its outstanding debt increased 34 times from $2.1 billion to $70 billion.

"IBRD does not make quick-fix loans."

Paid-in capital of $1.4 billion in 1960 amounted to about 50 percent of our disbursed and outstanding loans. Today, paid-in capital represents about 8 percent of our outstanding loans.

The fact is that the IBRD's paid-in capital has been successfully leveraged. The Bank simply needs the *power* to lend under its articles through an increase in subscribed, primarily callable, capital.

Myth 3: The U.S. capital market has supplied most of the funds for lending to developing countries.

IBRD lending is supported by its borrowings in capital markets throughout the world. Of $70 billion in outstanding debt, the U.S. medium- and long-term domestic market has supplied about $7 billion. A majority of the Bank's lending is financed from borrowings in yen, Deutsche marks, Swiss francs and guilders. Indeed, the World Bank's U.S. dollar disbursements on loans is less than our dollar borrowings from sources and savings outside the U.S. The IBRD holds investments in U.S. government obligations and in banks amounting to twice the dollars IBRD has borrowed in the U.S. domestic market.

Myth IV: The leveling off of World Bank gross disbursements – essentially flat for the last three years and recently projected at about the same levels for the next three as were projected in early 1985 – is due to bureaucracy, red tape, lethargy and the absence of a general capital increase, or all the aforementioned.

Not so. There are several reasons why the Bank's lending has not substantially increased over our projections made some 18-24 months ago: 1) Some borrowers have chosen not to borrow because of their substantial debt burden. They are wisely cutting back. 2) Some borrowing countries find bilateral loans less costly, particularly if the bilateral loans are subsidized to facilitate exports by the lending country. 3) Some countries are simply not creditworthy for IBRD loans. 4) Some prospective borrowers do not have development plans that are consistent with economic growth, and the IBRD will not lend if a country does not have a reasonable development plan. 5) Some countries cannot supply the local cost component of finance for projects. 6) Other developing countries cannot meet the conditions required for IBRD lending or make the necessary changes required for reasonable prospects for growth.

The Bank insists upon lending for productive purposes – quite apart from its role as a development institution. The IBRD borrows long-term, mostly at fixed interest rates, in capital markets, not money markets. It does not have a natural deposit base or a lender of last resort. The IBRD has reduced its lending charges to a few basis points over cost and, with very few exceptions, borrowers are servicing their debt. As you have seen, IBRD is a highly leveraged institution dependent on market support. It does not print money. It does not having taxing power. It must earn market support. Governments, the U.S. and other industrialized nations and the developing countries know this and would not have it otherwise. ■

Evolution of World Bank Lending
($ millions, cumulative)

	Loan Commitments	Gross Disbursements	Repayments	Disbursed and Outstanding
1946	0	0	0	0
1951	1,179	692	38	686
1956	2,787	1,964	193	1,536
1961	5,838	4,320	468	2,901
1966	9,861	7,258	1,105	4,214
1971	16,560	11,251	2,475	6,528
1976	38,092	19,611	4,952	13,705
1981	68,391	38,067	9,857	23,454
1986	126,164	76,630	23,171	61,953

Source: The World Bank

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