

ANNEX III

INTERNATIONAL DEVELOPMENT BANKS

International development banks provide financing for projects in developing countries. The major institutions are as follows: Inter-American Development Bank, African Development Bank, Caribbean Development Bank, Asian Development Bank, and the World Bank.

A description of the World Bank and the Asian Development Bank is given as examples of how these banks operate.

The World Bank

The World Bank, owned by more than 140 member governments and based in Washington, D.C., consists of two institutions that provide both financial and technical assistance to developing countries to stimulate economic development: the International Bank for Reconstruction and Development (IBRD), and an affiliate, the International Development Association (IDA). A second affiliate, the International Finance Corporation (IFC), works towards the same objective, but the way in which it does so is quite distinct from the IBRD and IDA.

The IBRD lends funds, most of which it raises through the sale of AAA-rated bonds in international capital markets, to creditworthy countries or their agencies, generally for specific development projects. Financing provided by the IBRD is at variable interest rates set at half a percentage point above its average cost of borrowing, and amortization is over usually twenty years or less, including a grace period. IBRD loans must be made to, or be guaranteed by, the government of the borrowing country.

IDA credits are made to countries that are not sufficiently creditworthy for IBRD financing or to those that cannot afford to obtain all their requirements on IBRD financing terms. IDA credits, made only to governments, are for fifty years at no interest; there are some small service charges, however.

The IFC lends directly to private or mixed enterprises for projects that assist local industries. Unlike the IBRD and IDA, the IFC provides loans without government guarantee and it can also take equity positions in private companies.

The three institutions are legally and financially distinct entities. IBRD loans and IDA credits are administered by the same staff, however, and the projects they fund must meet identical standards. They must be technically and financially sound, produce acceptable rates of return, and contribute to a country's economic growth and development.

IDA is funded from direct government contributions. IBRD raises most of its funds in the capital markets. There has never been a default on an IBRD loan or IDA credit, despite the Bank's policy not to reschedule loan and credit repayments. The IBRD makes a profit.