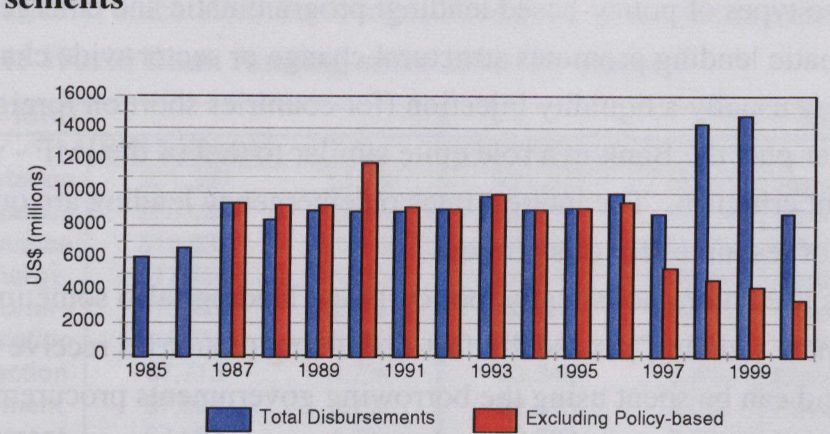
Figure 2: Impact of Policy-based lending on World Bank foreign disbursements[5]



Notice that total foreign procurement has increased, but only because policy-based lending growth is outpacing the decline of project-based lending. Theoretically the Bank's guidelines cap at 25% the portion of total lending for policy-based purposes, but allow deviation in the case of extreme circumstances. With emergency lending during the Asian Financial crisis this guideline was exceeded (not surprising since in 1999 fully 63% of that year's loans were policy-based!)[6]. While levels have since begun receding, this willingness of the part of shareholders to exceed the guideline has set a precedent for similar large emergency interventions in the future.

From a procurement side, policy-based lending is bringing an increasing amount of funding outside of World Bank guidelines as project-lending drops. As domestic governments often have strong links to domestic suppliers, it would be unsurprising if this resulted in an increase in domestic procurement at the expense of foreign suppliers. As well, it accentuates the existing maxim that the most important contacts for winning an IFI-funded contract are within the borrowing governments themselves.

Foreign vs. Domestic

As a whole, the percentage of IFI procurement from foreign sources has dropped

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[5]Data from World Bank Annual Reports, various years. The reason for the contradiction in 1990 (i.e. total lending below that excluding policy-based) is unclear. Possibilities include accounting differences between methods, including differences in the incorporation of debt relief.

[6]World Bank (2000a), pp 4-5.