

WORLD BANK

World Bank Lessons for
Development Institutions

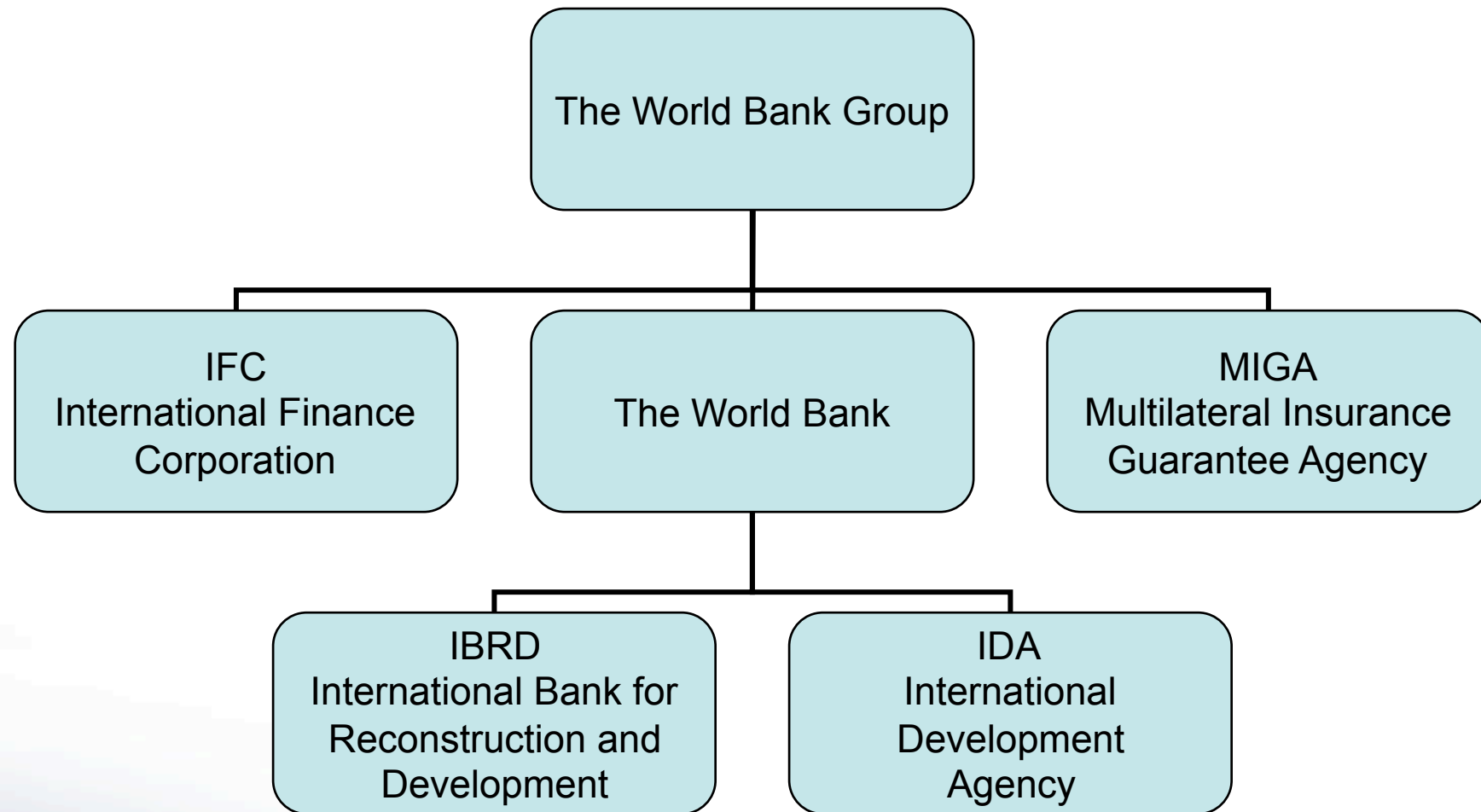


The World Bank Group: basics

- Established in 1945
- Global cooperative owned by 185 countries
- Mission: achieve equitable and sustainable economic growth, reduce poverty and improve standard of living
- The world's single largest source of development financing and expertise



The World Bank Group





GOVERNANCE

- **Board of Directors:**
 - 185 Members delegate a Governor and Alternate Governor;
 - Meets Annually, in Sep
- **Executive Directors:**
 - 24 EDs are Appointed by Countries with Largest Shares to oversee day-to-day operations;
 - Meet twice a week to consider policies, strategies, financials
 - Establish and serve in 6 Committees (including ethics, audit...)
- **President:**
 - Chairman of the Board of EDs
- **Senior Management:**
 - 2 MDs; Chief Economist; Legal Council
- **VPs:**
 - 21 VPs manage 6 Geographic Regions, 11 Networks, and Operational Units;
 - VPU – Bank’s Organizational Unit
- **Country Directors:**
 - Responsible for Dialogue with a Country



How the World Bank is Financed?

Bank is a conservative institution:

- Maximum “gearing ratio” of 1:1: The World Bank can never lend more than subscribed capital, reserves, and
- Low leverage: Borrowings account for about 38% of total subscribed capital, reserves, and surplus

Balance Sheet (June 2007; USD BLN)	
Assets	Liabilities & Equity
Loans: \$96	Borrowing: \$88
Liquid Assets: \$24	Equity: \$40
Other (Swaps): \$88	Other (Swaps): \$80
TOTAL: \$208	TOTAL: \$208

Operating Income 2007	
Income from Loans:	\$1.0
Income from Investments	\$1.2
Other Income (hedge, etc.)	\$0.7
Administrative expense:	\$1.2
TOTAL Operational Revenue: \$1.7 <i>(most from Investments (asset management!))</i>	

Capital Structure (June 2007; USD BLN)	
Paid-In Capital	\$11.5
Callable Capital	\$178.3
Subscribed Capital	\$189.8



Sources of Funding

- **IBRD:**
 - Issue AAA rated Bonds guaranteed by Paid-In and Callable Capital;
 - In 2007: \$10.1 BLN Borrowed from Markets.
- **IDA:**
 - Contributions from Developed Countries and Interest from Previous Loans;
 - IDA 14 funding for period 2006-2008 was \$33 BLN; 50% new contributions;
- **Trust Funds:**
 - Bank Managed TFs \$2.3 BLN in 2007;
 - Recipient Administered TFs \$2.2 BLN in 2007



Instruments

- Investment Lending & Development Policy Lending:
 - IBRD: LIBOR based, Fixed and variable rates, long term, grace period, customized repayment
 - IDA: Interest free, long term (up to 40 years) loans to poorer countries by IDA - in Russia there are 10 - 15 regions with similar characteristics
- Hedging products and other derivatives
- Grants
- Research and analytics
- *Scaling Up Lending to Subnationals without Sovereign Guarantees*



What the World Bank Finances?

- Loans as of today – about \$600 BLN
- Current portfolio - \$ 98 BLN (56% IBRD)
- 2007 - \$25 BLN Loans for about 300 Projects
 - \$13 BLN by IBRD
 - \$12 BLN by IDA, 18% as Grants
 - Of which, Guarantees - \$0.9 BLN
- Operating expenses in 2007- \$ 1.2 BLN
 - Out of which knowledge & research including country diagnostics; sector analyses; economic research; poverty studies, other: *\$250 MLN for 1,000 Reports and Studies*



Infrastructure Development

- Infrastructure is the largest share of WB financing; Includes social infrastructure
- Focus on infrastructure rehabilitation and development
- Emphasis on public-private-partnership (PPP)
- Products to support PPPs
- Specialized PPP department
- PPP database for over 3000 projects
- ***In Russia:*** WB has large infrastructure portfolio AND has been at the forefront of developing PPPs (advising on the concession law and Investment Fund, assistance to St. Petersburg with all PPP projects (WHSD, Orlovski Tunnel, Pulkovo airport, Nadzemni Express)



Operating principles

- Governance of Outmost Importance, even for established mature development institutions;
- Lending has to be:
 - Based on solid economic basis, not politically driven → ~ 12% Economic Return; Rigorous Tech/Econ Analyses
 - Complimentary and in support of private sector investments, and not market distorting → Lend only up to certain % of total project cost
 - In cases when there is a market failure → demand for long-term infrastructure investments when no long-term financing available
 - In compliance with strict environmental and social policies
- Investments have to be sustainable
- Special vehicle for *poor recipients*
- Combination of finance and knowledge
- Bank Operations has to financially sustained and costs recovered from lending *and asset management*



Risk Management

- Statutory Lending Limit (subscribed capital, reserves, portion of the surplus account) cannot be exceeded → in 2007 IBRD loans are only 44% of the Limit;
- Interest Rate Risk → addressed with 'cost-pass-through' loans and Interest Rates Swaps;
- Liquidity Risk → low; IBRD is conservative
- Operational Risks → Internal Control System;



Areas of Possible Cooperation between WB and VEB

- **Corporate Development:**
 - World Bank's Treasury has largest Assets Management Capacity Development Program for Public Sector Institutions Joint Lending to Regions
 - Infrastructure financing and PPP
- **Joint Trust Fund or other Special Program Management**
- **Possibly, a joint instrument can be developed for financing municipal/regional projects**