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The World Bank, the IFC, and MIGA

The expression, "The World Bank," as used in this *Annual Report*, means both the International Bank for Reconstruction and Development (IBRD) and its affiliate, the International Development Association (IDA). The IBRD has two affiliates, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The Bank, the IFC, and MIGA are sometimes referred to as the "World Bank Group."

The common objective of these institutions is to help raise standards of living in developing countries by channeling financial resources from developed countries to the developing world.

The IBRD, established in 1945, is owned by the governments of 151 countries. The IBRD, whose capital is subscribed by its member countries, finances its lending operations primarily from its own borrowings in the world capital markets. A substantial contribution to the IBRD's resources also comes from its retained earnings and the flow of repayments on its loans. IBRD loans generally have a grace period of five years and are repayable over fifteen years or fewer. They are directed toward developing countries at more-advanced stages of economic and social growth. The interest rate the IBRD charges on its loans is calculated in accordance with a guideline related to its cost of borrowing.

The IBRD's charter spells out certain basic rules that govern its operations. It must lend only for productive purposes and must stimulate economic growth in the developing countries in which it lends. It must pay due regard to the prospects of repayment. Each loan is made to a government or must be guaranteed by the government concerned. The use of loans cannot be restricted to purchases in any particular member country. And the IBRD's decisions to lend must be based on economic considerations alone.

The International Development Association was established in 1960 to provide assistance for the same purposes as the IBRD, but primarily in the poorer developing countries and on terms that would bear less heavily on their

balance of payments than would IBRD loans. IDA's assistance, therefore, is concentrated on the very poor countries—those with an annual per capita gross national product of \$480 or less (in 1987 dollars). More than forty countries are eligible under this criterion.

Membership in IDA is open to all members of the IBRD, and 137 of them have joined to date. The funds used by IDA, called credits to distinguish them from IBRD loans, come mostly in the form of subscriptions, general replenishments from IDA's more industrialized and developed members, and transfers from the net earnings of the IBRD. The terms of IDA credits, which are made only to governments, are ten-year grace periods, forty-year or fifty-year maturities, and no interest.

The IFC was established in 1956. Its function is to assist the economic development of less-developed countries by promoting growth in the private sector of their economies and helping to mobilize domestic and foreign capital for this purpose. Membership in the IBRD is a prerequisite for membership in the IFC, which totals 133 countries. Legally and financially, the IFC and the IBRD are separate entities. The IFC has its own operating and legal staff, but draws upon the Bank for administrative and other services.

MIGA, established in 1988, has a specialized mandate: to encourage equity investment and other direct investment flows to developing countries through the mitigation of noncommercial investment barriers. To carry out this mandate, MIGA offers investors guarantees against noncommercial risks; advises developing member governments on the design and implementation of policies, programs, and procedures related to foreign investments; and sponsors a dialogue between the international business community and host governments on investment issues. By June 30, 1989, the convention establishing MIGA had been signed by seventy-three countries, of which fifty-two had also ratified.

While the World Bank has traditionally financed all kinds of capital infrastructure such as roads and railways, telecommunications,

Sub-Saharan Africa continued to be one of the corporation's priorities: the African management services company (AMSCo) and the Africa enterprise fund (AEF) were both launched during the year. The former will address the need of African enterprises for better management, while the latter will allow the corporation to increase its assistance to small and medium-sized African enterprises. Moreover, in light of the success of the African project-development facility, which began operations in 1986, an extension of that service in a second phase is now being considered.

While the IFC's traditional investment activities will continue to grow in the coming years, the IFC plans to make special efforts to expand its advisory services and fund mobilization activities. It will also devote more attention to small and medium-sized enterprises, which are often dynamic and innovative and make up a significant portion of the productive economy in many developing countries.

Full details of the IFC's fiscal year can be found in its annual report, which is published separately.

Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA), the newest member of the "World Bank Group," has a specialized mandate: to encourage equity investment and other direct investment flows to developing countries through the mitigation of noncommercial investment barriers, especially political risk. To carry out this mandate, MIGA offers investors guarantees against noncommercial risks; advises developing member governments on the design and implementation of policies, programs, and procedures related to foreign investments; and sponsors a dialogue between the international business community and host governments on investment issues.

The guarantee program. Through media exposure, referrals by national investment credit insurers, direct mailings, participation in business and trade fora, and seminars, MIGA's guarantee program was successfully launched in fiscal 1989. By June 30, 1989, MIGA had received sixty-nine preliminary applications for guarantee, covering potential investments in twenty-four member countries. During the year, twenty-one additional preliminary applications were received for projects in fifteen countries that have not yet become MIGA signatories.

The variety of host countries in which the proposed investments are to be made is encouraging. A diversity of sectors is also represented in these applications and includes min-

ing, agriculture and agribusiness, aquaculture, manufacturing, services, energy, and forestry.

Guarantees are available for eligible investments that had not been made or irrevocably committed at the point of filing a preliminary application for guarantee. After submission of a preliminary application, the second step toward obtaining the guaranty is to complete a more detailed, definitive application for guarantee. By the end of the fiscal year, fifteen definitive applications had been filed, covering investments in eleven countries.

Policy and advisory services. The principal task of MIGA's policy and advisory services (PAS) is to help promote the flow of foreign investments to and among developing countries and to assist these countries in creating an attractive and hospitable investment climate.

A major component of the PAS is the foreign investment advisory services (FIAS). Established in 1986 in the International Finance Corporation, it became, in late 1988, a joint venture between MIGA and the IFC. FIAS is charged with providing advice and technical assistance to developing countries on their investment laws, policies, programs, and institutions. The advice and technical assistance are designed to promote, regulate, and otherwise influence the amount and character of foreign direct investment that member countries receive.

In fiscal 1989, FIAS staff worked on fourteen advisory projects, four conferences, and four research projects. Of the advisory projects, ten were completed, including five in MIGA member countries. These five projects involved making recommendations on new approaches to the problem of foreign-exchange allocation to joint ventures in China; assistance in formulating a new foreign-investment code in Togo; identifying policy impediments to foreign investment in the agricultural sector in Indonesia and Senegal; and a general diagnosis of policy issues for foreign investment in Madagascar.

In addition to the advisory functions that FIAS undertakes, PAS also provides consultative services to developing member countries that include the design and organization of investment promotion fora, specialized research and other related activities aimed at enhancing the level of investments and promoting opportunities for joint ventures in developing countries.

As of June 30, 1989, the convention establishing MIGA had been signed by fifteen category one (capital-exporting) countries and fifty-eight category two (capital-importing) countries, whose subscriptions totaled 74.43 percent of the agency's authorized capital. Fifty-

two signatory states had also ratified the convention; their subscriptions totaled 65.21 percent of the capital. Membership in MIGA is open to all members of the Bank and to Switzerland.

Details of MIGA's activities in fiscal year 1989 appear in its annual report, which is published separately.

International Centre for Settlement of Investment Disputes

The International Centre for Settlement of Investment Disputes (ICSID) is a separate international organization established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Convention), which was opened for signature in 1965 and entered into force on October 14, 1966. Pursuant to the provisions of the Convention, ICSID provides facilities for the conciliation and arbitration of investment disputes between an ICSID member state and a national or nationals of other member states. The World Bank sponsored the Convention in the belief that the availability of such facilities could contribute to creating an atmosphere of mutual confidence conducive to increasing the flow of private foreign investment into countries seeking it.

Membership in ICSID continued to grow with the ratification of the Convention by Honduras and Turkey during the fiscal year.

As of June 30, 1989, ICSID membership comprised ninety-one member countries of the World Bank, plus Switzerland. In addition, seven countries have signed but not yet ratified the Convention.

There are currently nine disputes pending before the centre. These include two proceedings for the annulment of an award and seven arbitration cases. During the fiscal year, the disputes in two other cases submitted to the centre were amicably settled. This brought to eleven the number of ICSID cases that have been settled or discontinued, as compared with nine that have given rise to binding awards. The high proportion of settlements is encouraging evidence of ICSID's ability to facilitate the resolution of disputes on terms agreed by the parties.

In addition to administering conciliation and arbitration cases, ICSID carries out a variety of promotional and publications activities. The centre's publications include a semiannual law journal, *ICSID Review—Foreign Investment Law Journal*, and multivolume collections of *Investment Laws of the World* and of *Investment Treaties*. Two issues of the law journal and four releases of the investment laws and treaties collections were published in fiscal 1989.

Details of ICSID's activities in fiscal year 1989 appear in the annual report of the centre, which is published separately.

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