

# Understanding The Purpose and Inner Workings of the World Bank

by Boran Göher

If you are one of the countless people on Earth who follow international politics on a regular basis but does not go out of their way to research what each economic institution on the news is trying to accomplish, you probably do not have much clue about the purpose and the inner workings of the World Bank or IMF. If that is the case, it would be very hard to blame you. The World Bank Group is one of the more complicated international financial institutions with a plethora of bodies underneath it all with very similar names and functions.

Let us now take a look at the structure of the World Bank Group, for it will be focal in understanding the workings and the mission of the WBG altogether. First, you might have noticed that sometimes we use the name World Bank and other times we use the name World Bank Group. These two names do not refer to the same organization. There are five distinct agencies within the World Bank Group (WBG), International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), International Centre for Settlement of Investment Disputes (ICSID), and Multilateral Investment Guarantee Agency (MIGA). Only the first two of these are considered to be part of the World Bank, while all five of them are within the World Bank Group. To further understand the difference between the World Bank and the WBG, we must know exactly what each agency does.

The International Bank for Reconstruction and Development is the most populous of the five agencies with a total of 189 member states.[1] The member governments to the IBRD are considered shareholders of the organization and thus are expected to contribute financially and are able to vote in decisions regarding the organization. The IBRD's main purpose is to lend money to developing countries at interest rates preferable to the borrowing country. The organization aims to aid the development of developing nations and eradicate poverty around the world.

The International Development Association works in a very smaller fashion, but the IDA lends only to the least economically developed countries in the world. There is an eligibility system to determine which countries are allowed to borrow from the IDA. Various factors are taken into consideration such as per capita income, the state of the private sector, GDP per capita, etc.[2] To the date, 36 countries have graduated from eligibility and 9 have relapsed back into eligibility.[3]

Contrary to the last two agencies, the International Finance Corporation is more involved with the private sector than it is with governments. It again targets less developed countries, but instead of loaning money directly to the governments of said countries, the

IFC provides loans, various asset and risk-management services, investment advice, etc.[4] The organization also participates in various capital markets in target countries which allows it to influence the private sector as an inside actor as well.

The International Centre for Settlement of Investment Disputes mainly acts as an international arbitration arm for the WBG. The organization aims to resolve international investment disputes, although it does not directly act as an arbitrator, instead offering various forms of support for parties involved in disputes, and preparing a commission and a tribunal to offer a final solution.[5] For a case to fall under the formal boundaries of the ICSID, the case must be a legal dispute concerning an investment of international nature. If those conditions are met, member states can apply to the ICSID to settle their issues.

Finally, the Multilateral Investment Guarantee Agency aims to, as the name implies, provide a factor of guarantee for investors investing in developing countries. The MIGA offers political risk insurance and credit enhancement guarantees often needed to do business in developing countries, because of the generally turbulent private sector, legal affairs, and overall politics. The agency supports investors especially in IDA-eligible countries, where foreign direct investment and semi-government-backed projects are crucial for further developments.[6]

In conclusion, World Bank refers mainly to the lending arm of the World Bank Group, namely the IBRD and IDA. All five agencies are under the leadership of the World Bank Group and are in very close relationship with each other and also the International Monetary Fund.[7] So, both the World Bank and World Bank Group refer to international financial institutions which aim to promote development, especially in less developed parts of the world, by making use of various agencies working under themselves. Accordingly, The World Bank Group's current overall aim is to foster development and reduce poverty across the globe.[8]

---

[1] <https://www.worldbank.org/en/about/leadership/members#2>

[2] <https://www.sciencedirect.com/science/article/abs/pii/S0038012109000329?via%3Dihub>

[3] <https://ida.worldbank.org/about/ida-graduates>

[4] [https://www.ifc.org/wps/wcm/connect/CORP\\_EXT\\_Content/IFC\\_External\\_Corporate\\_Site/Annual+Report](https://www.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/Annual+Report)

[5] <https://icsid.worldbank.org/About/ICSID>

[6] <https://www.miga.org/IDA>

[7] <https://www.imf.org/en/About>

[8] <https://www.aeaweb.org/articles?id=10.1257/jep.30.1.53>