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TRENDS OF FINANCIAL FLOWS AND TERMS AND CONDITIONS EMPLOYED BY MULTILATERAL LENDING INSTITUTIONS

First Technical Paper

on

Terms of transfer of technology and know-how

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CONTENTS

I. TERMS OF TRANSFER

A. Introduction

1. The first Conference of the Parties (COP1) of the United Nations Framework Convention on Climate Change (UNFCCC), in its decision 13/CP1 (FCCC/CP/1995/7/Add.1), requested the secretariat to prepare a paper on the terms of transfer of technology and know-how. At its fifth session, the Subsidiary Body for Scientific and Technological Advice (SBSTA) took note of the progress report on technology and technology transfer prepared by the secretariat to present the list of topics it had elaborated that could be addressed in a series of papers. These topics include financial flows between countries, activities undertaken by governments to facilitate the introduction and use of environmentally sound technologies, private sector banks, small and medium enterprises and transnational corporations as well as success stories from different countries (FCCC/SB/1997/1). The SBSTA welcomed activities underway on terms of transfer and other issues, urged the secretariat to accelerate its activities and requested Parties to submit comments on this and other technology subjects by 31 May 1997 (FCCC/SBSTA/1997/4).

B. Scope of the paper

2. This is the first technical paper prepared by the secretariat to respond to the above mandate. It has been compiled from readily available information provided by multilateral development banks and other institutional organizations. For this reason, most of the information contained herein does not represent new data or original research. However, it has been synthesized by the secretariat to provide Parties participating in the UNFCCC process with an overview of recent investment trends and terms, particularly those of multilateral institutions. Recognizing that the issue of terms of transfer has many aspects, the work has been divided into two categories: (a) legal and institutional measures affecting admission and establishment, ownership and control as well as operation of foreign goods (technologies), services and firms; and (b) investment and financial measures affecting the transfer of technology. This paper provides information on the second of these categories, particularly the financial conditions of multilateral institutions, although many similar conditions affect private sector lending. The information presented includes an overview of financial flows between countries, focusing on flows from developed to developing countries and to countries with economies in transition. It also provides selected information on the terms, conditions and financial criteria employed by multilateral lending institutions.

3. The financial information from different institutions varies in format. For example, the World Bank uses a classification based on per capita income, while the Organisation for Economic Co-operation and Development (OECD) analyses developing countries separately from the transition economies of Eastern Europe. In the OECD official flows to countries

with economies in transition are denominated official aid rather than development assistance.[1]

4. The secretariat will attempt to focus on the climate relevant aspects of the terms of transfer, since other institutions are conducting extensive analyses of these subjects. This initial technical paper provides basic information necessary to begin considering these issues in a broad context, including the many economic activities which affect greenhouse gases. However, it is difficult to obtain comparable data on financial terms and conditions that would be relevant to the Convention. Quantitative and qualitative information about technology cannot be directly derived from the data.

II. GENERAL INVESTMENT TRENDS AND FINANCIAL FLOWS

A. Introduction

5. Almost all economic activities affect emissions and some affect the removals of greenhouse gases. Therefore, a consideration of financial terms of transfer needs to be comprehensive. However, some sectors like energy, industry, transportation, forestry, agriculture and waste management are generally more climate relevant than others and deserve special attention as data become available.

6. The term "financial flows" is a broad concept that includes many different components. It is a general term integrating all the main forms of capital flows among countries.[2] The main categories include:

(a) Official development finance, including grants and loans directed to low and middle income countries, with the main objective of promoting economic development and welfare. The majority of official development finance is made by grants and other concessional finance (for example, emergency relief and peace-keeping activities), while the remaining part are loans, generally with special terms and conditions. These types of financing are provided through two channels, the being the bilateral, through special agreements among governments, and the multilateral, set up mainly by development banks, international and regional funds and United Nations agencies; and

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[1] According to the OECD, Official Development Assistance (ODA) is defined as those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, each transaction of which meets the following tests: a) It is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) It is concessional in character and conveys a grant element of at least 25 percent. Official Aid comprises flows which meet the tests of ODA, but are directed to countries on Part II of the Development Assistance Committee (DAC) List of Aid Recipients (like countries with economies in transition).

[2] In this paper, particular attention is paid to the capital flows to low and middle income countries. These countries are classified on the basis of the World Bank classification system as having a 1995 per capita income of less than US$765 (low) and US$9,385 (middle). These countries include developing countries, countries with economies in transition and Greece (among middle income countries).

(b) Private flows, capital made up of debt-flows (including lending by commercial banks, bonds and others), foreign direct investment and portfolio equity flows (investment in stocks traded internationally or locally).[3]

7. Financial flows, as described, reached US$284.6 billion in 1996[4]. This represents US$47 billion or a 20 percent increase from 1995 and a 184 percent increase since 1990. These figures confirm the pace of continuous growth that has characterised most of the 1990s. The sources of capital have shifted dramatically in the last few years. In 1990, official development finance accounted for 56 percent of the total amount of financial flows, while in 1996 this percentage was 14 percent mainly due to the strong growth of private capital flows. Between 1995 and 1996 official source financing decreased by 23 percent or US$12.2 billion while the private capital flows increased by 32 percent or US$59.6 billion. Official financial flows have decreased by 27 percent since 1990. Moreover, this trend does not appear likely to change significantly in the near future.[5]

8. Private capital flows have experienced a substantial growth for several reasons. First, private capital markets in many developing countries have matured together with an improved credit worthiness and macro-economic management. This has increased investor confidence in some developing regions. Second, borrowing from commercial banks increased, due to private sector borrowers and greater use of guarantees from private banks. Third, foreign direct investment has continued to grow over the past years reaching a larger number of countries, particularly in Latin America and Eastern Europe. This growth is related to investment reforms undertaken in many countries in order to attract foreign investors. Finally, portfolio equity flows also moved ahead. These external flows went directly to domestic stock markets through pension funds, mutual funds and other investment vehicles.

9. The Global Development Finance publication[6] of the World Bank shows that for the period 1990-1996, all regions experienced an increase in net flows, however, there are substantial differences among regions and countries. Countries that are less attractive to private capital suppliers relied primarily on official financing to supplement domestic savings, while countries that have access to private capital markets enjoyed financial inflows. The aggregate net long-term resource flows to developing countries and its main components is summarized in Table 1.

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[3] This paper is intended to provide information mainly on foreign direct investment considering that it is most directly related to the transfer of technology. Further analysis is needed to establish the connections between investments in equities, stocks, bonds and lending by commercial banks to the transfer of technology relevant to climate change.

[4] Preliminary data. World Bank.

[5] Financial Issues of Agenda 21, United Nations, Third Expert Group Meeting, Manila, Philippines, 1996.

[6] Global Development Finance, 1997. World Bank.

Table 1. Aggregate net long-term resource flows to low and middle income countries (US$ billion)

Type of flow	1990	1991	1992	1993	1994	1995	1996
Aggregate net resource flows	100.7	122.5	146.0	212.0	206.7	237.2	284.6
Official development finance	56.3	65.6	55.4	55.0	45.7	53.0	40.8
Grants	29.2	37.3	31.6	29.3	32.4	32.6	31.3
Loans	27.1	28.3	23.9	25.7	13.2	20.4	9.5
Bilateral	11.6	13.3	11.3	10.3	2.9	9.4	-5.6
Multilateral	15.5	15.0	12.5	15.4	10.3	11.1	15.0
Total private flows	44.4	56.9	90.6	157.0	161.0	184.2	243.8
Debt flows	16.6	16.2	35.9	44.9	44.9	56.6	88.6
Commercial banks	3.0	2.8	12.5	-0.3	11.0	26.5	34.2
Bonds	2.3	10.1	9.9	35.9	29.3	28.5	46.1
Others	11.3	3.3	13.5	9.2	4.6	1.7	8.3
Foreign direct investment	24.5	33.5	43.6	67.2	83.7	95.5	109.5
Portfolio equity flows	3.2	7.2	11.0	45.0	32.7	32.1	45.7

Source: Global Development Finance, 1997. World Bank.

10. Countries with stable macro-economic conditions and an environment that is appealing to business have been able to attract private capital flows (mainly among middle income countries). However, of the approximately US$60 billion increase in 1996, only about US$14 billion went to low income countries. Low income countries, excluding China and India which enjoy good market access, received an increase of slightly less than US$2 billion and a total of slightly more than US$7 billion in private flows in 1996. These countries have little access to bond markets and to medium- to long-term commercial bank lending. In relative terms, however, flows to all income groups increased by a factor of about six between 1990 and 1996, including the low income countries. Some regions experienced much greater inflows than others and one region (Sub-Saharan Africa[7]) had net outflows for two years (Table 2).

[7] Flows related to individual countries may be positive or negative and may vary over time.

Table 2. Net private capital flows to low and middle income countries by country group (US$ billion)

Country group	1990	1991	1992	1993	1994	1995	1996
All countries	44.4	56.9	90.6	157.1	161.3	184.2	243.8
Sub-Saharan Africa	0.3	0.8	-0.3	-0.5	5.2	9.1	11.8
East Asia and the Pacific	19.3	20.8	36.9	62.4	71.0	84.1	108.7
South Asia	2.2	1.9	2.9	6.0	8.5	5.2	10.7
Europe and Central Asia	9.5	7.9	21.8	25.6	17.2	30.1	31.2
Latin America and Caribbean	12.5	22.9	28.7	59.8	53.6	54.3	74.3
Middle East and North Africa	0.6	2.2	0.5	3.9	5.8	1.4	6.9
Income group							
Low income countries, excluding China and India	1.4	3.0	2.4	5.8	6.3	5.5	7.1
China and India	10.0	9.1	23.0	44.2	50.8	47.9	60.0
Middle income countries	32.0	44.0	64.8	107.1	104.2	130.7	176.7

Source: Global Development Finance, 1997. World Bank.

11. Foreign direct investment forms an important economic link between developing and developed countries and, increasingly, among developing countries themselves. In recipient economies, it can contribute to physical capital formation, human capital development, transfer of technology and know-how, expansion of markets and foreign trade. Most foreign direct investments rely on activities undertaken by multinational corporations, but foreign investors have also been increasingly attracted to privatization projects in many developing countries. However, the distribution of private flows is far from even with many low income countries continuing to rely on official development finance.

B. Trends in private capital flows

12. Private net flows recorded increases in all instruments in 1996 and in all regions of the developing world (Table 2). Considering private net flows as a share of recipient Gross National Product (GNP)[8], middle income countries received an average of 3.2 percent of GNP in private flows. Low income countries received 4.2 percent of GNP but without China and India, that share falls to 1.5 percent. A list of the largest recipient countries is provided in Table 3.

8 1995 data. Global Development Finance, 1997. World Bank.

Table 3. Net private capital flows to low and middle income countries by country 1990-96 (US$ billion)

Country destinations	1990	1991	1992	1993	1994	1995	1996
China	8.1	7.5	21.3	39.6	44.4	44.3	52.0
Mexico	8.2	12.0	9.2	21.2	20.7	13.1	28.1
Brazil	0.5	3.6	9.8	16.1	12.2	19.1	14.7
Malaysia	1.8	4.2	6.0	11.3	8.9	11.9	16.0
Indonesia	3.2	3.4	4.6	1.1	7.7	11.6	17.9
Thailand	4.5	5.0	4.3	6.8	4.8	9.1	13.3
Argentina	-0.2	2.9	4.2	13.8	7.6	7.2	11.3
India	1.9	1.6	1.7	4.6	6.4	3.6	8.0
Russian Federation	5.6	0.2	10.8	3.1	0.3	1.1	3.6
Chile	2.1	1.2	1.6	2.2	4.3	4.2	4.6

Source: World Bank Debtor Reporting System and staff estimates.

13. Foreign direct investment is an important share of private capital flows and such investment reached 45 percent of total private flows in 1996. According to World Bank data, the share of foreign direct investment in global economic activity, as measured by the ratio of foreign direct investment flows to gross domestic fixed capital formation, doubled in the past two decades.

14. In the 1990s, low and middle income countries received 40 percent of all foreign direct investment[9]. Much of this foreign direct investment went to countries in East Asia, while countries in the Middle East, South Asia and Sub-Saharan Africa received the least (Table 4).

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9 Global Development Finance, 1997. World Bank.

Table 4. Net foreign direct investment to low and middle income countries, 1990-96 (US$ billion)

Country group	1990	1991	1992	1993	1994	1995	1996
All countries	24.5	33.5	43.6	67.2	83.7	95.5	109.5
Sub-Saharan Africa	0.9	1.6	0.8	1.6	3.1	2.2	2.6
East Asia and the Pacific	10.2	12.7	20.9	38.1	44.1	51.8	61.1
South Asia	0.5	0.5	0.6	0.8	1.2	1.8	2.6
Europe and Central Asia	2.1	4.4	6.3	8.4	8.1	17.2	15.0
Latin America and Caribbean	8.1	12.5	12.7	14.1	24.2	22.9	25.9
Middle East and North Africa	2.8	1.8	2.2	4.2	3.0	-0.3	2.2
Income group							
Low income countries	4.5	7.1	13.9	32.0	39.1	41.6	49.5
Middle income countries	20.0	26.3	29.8	35.2	44.6	53.9	60.0
Low income countries excluding China	1.0	2.7	2.7	4.5	5.3	5.8	7.2

Source: World Bank Debtor Reporting System

15. Multinational corporations remain the major source of foreign direct investment, mostly coming from enterprises in industrialized countries. However, some developing countries have generated substantial outflows in recent years, contributing to an expansion of the world markets.

16. Foreign direct investment can bring substantial gains to recipient economies such as promoting technological development, facilitating exports and access to export markets, and growth. The technical changes promoted by foreign direct investment include higher productivity, improved research and development practices, better local training and incremented efficiency of local producers.

17. A number of studies have analysed the relationship between foreign direct investment and the spillover of technology to the local economy to demonstrate the existence of technology.[10] Although evidence does not conclusively demonstrate it, the benefits for the economy of recipient countries may be substantial. The indirect link between foreign direct investment and transfer of technology highlights the importance of these flows to environment related issues and to climate change in particular.

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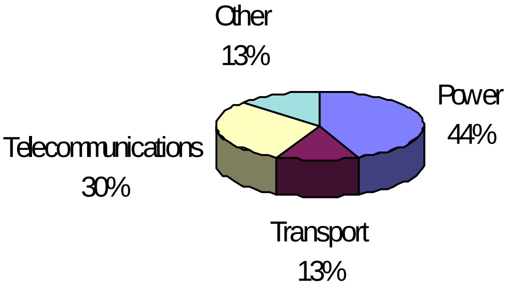
[10] See for example E. Borenzstein, J. de Gregorio and J.Lee, "How does foreign direct investment affect growth?" NBER Working Paper 5057, National Bureau of Economic Research, Cambridge, Mass., 1995 and D. Coe, E. Helpman and A. Hoffmaister, "North-South R&D Spillovers", Discussion Paper 1133, Centre for Economic Policy Research, London, 1995.

III. INVESTMENT TRENDS BY CLIMATE RELEVANT SECTORS

A. Introduction

18. The sectoral distribution of foreign direct investment in developing countries is not well documented and statistics on transfer of environmentally sound technologies (ESTs) and their impact on greenhouse gases emissions are even more difficult to determine. However, some insights can be obtained by considering data on expenditures for infrastructure. Developing countries are increasingly financing their infrastructure through international capital markets, a trend reflected in the growth of their commercial bank borrowing and their increased use of bond and equity markets. This source of financing is mainly utilized to support infrastructure projects that are hard to finance, such as large power projects. The sectoral distribution of external financing of infrastructure in developing countries is shown in Figure 1. Better data, if collected and disseminated, would improve understanding of these investments.

Figure 1. Financing of infrastructure by sectors 1991-95



Source: Global Development Finance, 1997. World Bank.

B. Official aid by sectors

19. The data of sectoral distribution of aid from the Development Assistance Committee (DAC)[11] of OECD provides an approach to determining the direction of financial flows to sectors directly related to climate change issues. The DAC database can generate information on the aggregate flows and pattern of aid (mainly loans and grants) and other financial resources to aid recipients.

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[11] The members of the DAC of OECD have agreed to secure an expansion of aggregate amount of resources made available to developing countries and to improve their effectiveness. The members of the DAC are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom of Great Britain and Northern Ireland, the United States of America and the European Commission.
Source: OECD/DAC Geographical Distribution of Financial Flows to Aid Recipients 1991-95.

20. In the period 1994-1995, total bilateral flows from DAC member states increased slightly after a general decline from 1990 (Table 5). The energy and transport sectors are among the ones that received the larger amount of flows. Significant amounts also went to the health sector, US$2 billion in 1995, and water supply and sanitation, US$3 billion in 1995, categories that may be related to adaptation.

21. The DAC data collecting system permits since 1993 the compilation of information on aid related to the environment within the different sectors. In the creditor reporting system (CRS) of DAC, two environment related "markers" have been included in order to mark the policy objectives of the reported projects. These markers identify projects carried out with an environment impact assessment and projects meant for environmental purposes or significantly influenced by environmental considerations.[12] A summary of the results of these markers is not yet available from the DAC.

22. The sector identified as "other" in table 5 includes a subsector called "general environmental protection". This subsector has been created to identify aid that is targeted for specific environmental purposes and which is not covered in any other sectoral categories. This subsector is divided into groups consisting of environmental policy and administration management, biosphere protection, biodiversity site preservation, flood prevention/control, environmental education/ training and environmental research. In 1995, the only year for which data is available, aid directed at the environmental subsector totalled US$725 million.

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[12] A special marker on aid to biodiversity protection is envisaged to be included in the near future.

Table 5.
DAC aid by sector (US$ million)

SECTORS	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Transport and storage	1688.49	3405.21	3612.99	3327.68	3674.77	4949.89	2931.93	4103.34	4630.71	5388.36
Energy	2095.56	3175.88	3377.00	2538.72	2844.79	5062.66	2808.34	3716.97	3893.30	5289.93
Agriculture, forestry and fishing	3564.03	4118.50	4872.32	4018.44	4379.13	3798.21	4391.26	3729.34	3768.72	3836.08
Industry	681.20	854.69	1617.49	1483.56	1319.26	909.23	2221.44	1122.54	653.67	522.32
Mining	1157.27	612.17	383.15	301.19	151.32	142.49	140.74	180.54	134.78	60.38
Construction	42.38	71.00	340.80	156.07	101.36	23.24	45.79	24.45	49.58	22.76
Other sectors	9829.49	12448.48	15610.83	14489.50	17678.29	16198.42	17972.25	17158.00	22725.17	21051.72
Total sector	19058.42	24685.93	29814.58	26315.16	30148.92	31084.18	30511.75	30035.18	31855.93	36171.55
Commodity aid emergency aid other	11572.37	11359.61	14460.76	13443.34	27859.92	25959.58	19526.34	19533.41	18351.69	15875.07
Total bilateral	30630.79	36045.54	44275.34	39758.50	58008.84	57043.72	50038.09	49568.59	50207.62	52046.62

Source: OECD/DAC aid by sectors.

IV. TERMS, CONDITIONS AND FINANCIAL CRITERIA EMPLOYED BY MULTILATERAL LENDING INSTITUTIONS

A. Multilateral finance

23. Multilateral finance, one source of official development finance, has played an important role in development since the creation of the Bretton Woods institutions in the 1940s. This financing originates from a few main sources such as Development Banks, International and Regional Funds and United Nations Agencies. Alleviation of poverty and fostering of economic development are among the main goals of these institutions. This type of financial support has also been used to stabilise flows in markets were private capital and/or bilateral aid was subject to irregular cycles or geographical imbalances. While multilateral lending has decreased in recent years compared to private flows, it still represents an essential source of financing for a large number of countries.

24. As a general classification, we can divide multilateral finance in two main groups: loans and grants. Grants are transfers, in money or contributions in kind, for which no repayment is required. Contrastingly, loans are repaid under many different conditions.

25. According to OECD statistics, the most recent trends can be summarized in the following table, which shows the total net disbursements from multilateral agencies[13] to all developing countries and countries with economies in transition (CEEC/NIS):

Table 6. Trends in multilateral finance flows (US$ million)

Countries	1989	1990	1991	1992	1993	1994	1995
Developing countries	19.382	23.656	23.057	21.270	24.173	23.011	23.563
CEEC/NIS	-	1.061	2.449	3.002	3.469	4.173	4.074
Total	19.382	24.717	25.506	24.272	27.642	27.184	27.637

Source: OECD

[13] The multilateral agencies included in table 6 are: AfDB (African Development Bank), AfDF (African Development Fund), AsDB (Asian Development Bank), CarDB (Caribbean Development Bank), CEC (European Commission), IBRD (International Bank for Reconstruction and Development), IDA (International Development Association), IDB (Inter-American Development Bank), IFAD (International Fund for Agricultural Development), IMF (International Monetary Fund), UNDP (United Nations Development Programme), UNHCR (United Nations High Commissioner for Refugees), UNICEF (United Nations Children's Fund), UNTA (United Nations Regular Programme of Technical Assistance), WFP (World Food Programme).

26. The figures in the above table present the total net (i.e., minus repayments of principal in respect of earlier loans) disbursements from multilateral agencies to recipients countries including both loans and grants. The trend is not regular and follows periods of constraints.

27. These flows were directed at many different purposes including food aid, energy and industry, covering all the social and economic needs. Presently, it is difficult to determine the flows directly related to climate change and the effect of those flows.

28. Nevertheless, the multilateral agencies are providing financing for many activities necessary to ensure the transfer of technology, for example, building institutional capacity, establishing research centres and funding demonstration projects. Multilateral agencies influence private financial markets to support technology transfer. At the macro level, this is done by encouraging financial reforms in banking, privatisation, stock market development. At the micro level, influence comes through developing, demonstrating and transferring the innovative financial instruments needed to accelerate access to technology.

1. World Bank Group lending for environmental purposes

29. Since the 1992 UNCED Conference in Rio de Janeiro, lending for environmental purposes has become a higher priority. Today, all the major multilateral agencies are incorporating environmental factors to their activities. Environmental lending covers a variety of activities such as resource management and industrial pollution. It should be noted, however, that a distinction also exists between lending for projects with environmental objectives, and projects with a variety of objectives including environmental (projects with environmental components). While multilateral agencies report on their environmental activities, it is sometimes hard to determine which parts of these funds are directed to finance the transfer of environmentally sound technologies (ESTs).

30. In recent years, the World Bank Group[14] has begun to carry out environmental assessments of new projects. Typically, projects are split into categories for assessment, for example, projects requiring a full environmental assessment (category A) and those requiring only partial assessment or analysis (category B). There may often be an overlap between environmental projects and projects requiring fuller assessments.

31. In fiscal year (FY)1994, the World Bank funded 26 projects which required category A assessments, totalling US$4.8 billion. Nine projects were in the energy and power sector, seven were agricultural, five were transport-related and five were urban or other. In addition, the IFC had eight projects involving category A assessments, five of these in energy, two in industrial (mining), and one in natural resources. Most of the resulting recommendations

[14] The World Bank Group comprises five organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID).

concerned design and management issues, and only a few clearly recommended the use of ESTs. The exception was the energy sector where a number of environmental assessments recommended the use of ESTs or clearly encouraged its adoption at an early stage, and thus lead to the financing of ESTs within the context of the project as a whole. Some of the category B assessments have encouraged or mandated the use of environmentally sound technology in less directly environmentally sensitive projects.

32. The World Bank Group funding of ESTs is estimated to be around US$700 million to US$1 billion a year. If regional banks are included, the total direct funding of ESTs is estimated to be approximately US$2 to 3 billion per year. Acting as a lead investor, however, these banks have leveraged substantial amounts of private capital and so have influenced a significantly larger proportion of the total investment in ESTs. Environmental loans totalled US$1.63 billion and leveraged another US$1.64 billion in fiscal year 1996.

33. There are two types of World Bank lending. The first type is for developing countries that are able to pay near-market interest rates. The second type of loan goes to the poorest countries, which are usually unable to pay near-market interest rates on the money they borrow. Lending to the poorest countries is done by a World Bank affiliate, the International Development Association (IDA). IDA lends about US$6 billion a year to the world's poorest countries.

2. Regional lending results

34. New lending commitments from the World Bank to developing countries totalled US$21.4 billion in fiscal year 1996, which ended on 30 June that year. This figure includes both the market rate loans made by the International Bank for Reconstruction and Development (IBRD) and the concessionary loans made to the world's poorest countries through the IDA. The total compares to US$22.5 billion in FY95 and US$20.8 billion in FY94. IBRD loan commitments in FY96 amounted to US$14.5 billion - about three-quarters of the total - for 129 projects. US$6.9 billion in IDA credits supported 127 projects. The respective totals for FY95 were US$16.9 billion for 134 IBRD projects and US$5.7 billion for 108 IDA projects. IBRD/IDA combined gross disbursements at the end of FY96 were US$19.3 billion, up from US$18.5 billion in FY95. IBRD gross disbursements totalled US$13.4 billion, compared to US$12.8 billion in FY95; IDA gross disbursements were US$5.9 billion, compared to US$5.7 billion in the previous fiscal year.

35. New lending commitments to Africa in FY96 totalled US$2.7 billion, financing 53 projects in the form of IDA credits. In FY95, combined lending to the region totalled US$2.3 billion. The four single sectors receiving the most support in FY96 were public sector management, transportation, agriculture, and the social sector.

36. IDA is the most important source of concessional lending for Africa, amounting to over
US$3 billion a year. Africa is by far the largest area of activity of IDA - roughly one-half of IDA funds are directed to the continent. IDA funding for Africa targets critical development

needs such as nutrition and health, education, energy, and infrastructure. In doing so, IDA fills a gap in anti-poverty funding areas that do not attract private investments because they do not produce the short-term financial returns.

37. The largest African borrowers were Côte d'Ivoire, Kenya, Ghana, Cameroon and Malawi, which together accounted for over half of IDA lending in Africa and for 22% of all FY96 lending.

38. Presently, 31 active Bank projects in Sub-Saharan Africa (in addition to 10 GEF projects) deal exclusively with environmental issues. The natural resource management projects in the portfolio focus on forest and wildlife resource management, and sustainable management of agricultural lands or fisheries. Its institutional projects support developing environmental management capacity through the National Environmental Action Plan (NEAP) and the Endangered Species Programme (ESP). Urban environmental management projects control the environmental and public health issues associated with water and sanitation in cities. Further, its energy-efficiency projects address efficient fuelwood use. Overall, the Bank has contributed to these projects, approximately US$715 million out of a total project cost of US$1.3 billion.

Table 7. Lending to borrowers in Africa, by sector

Sector	Annual Average 1987-91	1995	1996
Agriculture	671.1	415.1	328.0
Electric Power	145.1	255.3	73.3
Environment	4.4	-	11.8
Industry	122.0	-	11.4
Mining	16.2	24.8	-
Oil and Gas	6.5	-	-
Transportation	389.4	74.8	420.7
Other	1871.0	1514.3	1894.9
Total	3,255.7	2,284.3	2,740.1
of which: IBRD	992.3	80.7	-
IDA	2,263.4	2,203.6	2,740.1
Number of operations	80	58	53

Source: International Development Association

Table 8. Examples of environmental projects with possible linkages to climate change in Africa

Country	Project Name	FY	Bank cost (US$m)	Total
Angola	Lobito-Benguela Urban Envir. Rehab.	92	46	59
Benin	Natural Resources Management	92	14	24
	Environmental Management	95	8	9
Burkina Faso	Environmental Management	91	17	25
	Urban Environment	95	37	50
Côte d'Ivoire	Nat. Resource and Wildlife Management*	96	7	13
Burundi	Energy Sector Rehabilitation	91	23	23
Cameroon	Biodiv. Conservation and Management*	95	6	12
Central African Republic	Natural Resource Management	90	19	34
Congo	Wildlands Protection and Management*	93	17	10
Côte d'Ivoire	Forestry Sector	90	81	147
	Abidjan Environmental Protection	90	22	50
Gabon	Forestry and Environment	93	23	38
Gambia	Cap. Buil. for Envi. Management/TA	94	3	5
Ghana	Environment Resource Management	93	18	36
	Forest Resource Management	89	39	65
	Coastal Wetlands Management*	93	7	8
Guinea	Forestry & Fisheries Management	90	8	23
Kenya	Forestry Development	91	20	65
	Protected Areas and Wildlife Services	92	61	143
Madagascar	Environment Programme	90	26	86
	Antananarivo Plain Development	90	31	69
	Forests Management and Protection	88	7	23
Malawi	Fisheries Development	91	9	16
	Lake Malawi/Nyasa Biodiversity Conservation*	95	5	5
Mali	Natural Resource Management	92	20	32
	Household Energy*	95	3	11
Mauritania	Water Supply	92	11	15
Mauritius	Environmental Monitoring and Develop.	91	12	21
	Biodiversity Restoration*	96	1	2
	Sugar Bio-Energy Technology*	92	3	55
Niger	Energy	88	32	79
	Natural Resources Management	96	27	42
Nigeria	Environmental Management	92	25	38
Seychelles	Environment and Transport	93	5	7
	Biodi. Cons. & Marine Poll. Abatement*	93	2	2
Sudan	Southern Kassala Agriculture	89	16	35
Tanzania	Forest Resources Management	92	18	26
Togo	Lome Urban Development	94	26	29
Uganda	Envi. Management Capacity Building	96	12	23
	Bwindi Impenetrable National Park & Mgahinga Gorilla Nat. Park Conservation *	95	4	5

* Global Environment Facility

Source: International Development Association

39. The East Asia and Pacific region received over US$5.4 billion in new IBRD/IDA commitments - US$4.25 billion for IBRD and US$1.16 billion for IDA - in the fiscal year ended 30 June 1996, making it the number one recipient of the US$21.4 billion in total lending given by the Bank with a 25 percent share. Countries in the region received US$6 billion from IBRD/IDA in FY95. Lending to the region for electric power and other energy totalled US$1.7 billion in FY96, with most of this support, US$1.5 billion, in IBRD lending. The transportation sector (US$917 million) and agriculture sector (US$866 million) also received a large share of lending in FY96.

40. New IBRD loan commitments in FY96 financed 26 projects. IDA loans funded 14 projects. Loan "blends" - joint IBRD and IDA funds - supported five additional projects. These figures compare with FY95 figures of US$ 4.6 billion in IBRD loans for 28 projects and US$1.1 billion in IDA loans for 9 projects, with 5 additional IBRD/IDA blend-funded projects. For the second year in a row, three countries in East Asia were among the top ten loan recipients. China was the largest borrower of the World Bank in FY96, with US$2.97 billion in total loans financing 16 projects targeting infrastructure development, industrial and agricultural reform, environmental protection, and social sector programmes. Indonesia remains the second largest borrower in the region and the fifth largest in the World Bank, with a total of 11 projects financed by US$991.7 million in IBRD loans. Power, education, infrastructure, and agriculture were key sectors.

41. Of particular significance concerning climate change is the fact that the largest portion of World Bank Group loans to the East Asia and Pacific Region financed projects in the energy sector, with US$1.68 billion total (31 percent). The transportation sector received the next largest share, with US$916.9 million in loans (17 percent), followed by agriculture (US$865.6 million, 16 percent) and urban development (US$524.7 million, 9.7 percent). The other sectors benefiting from World Bank funding are the education, population, health and nutrition, industry, environment, and social sectors, as shown below. Multi-sector loans and loans for finance, mining, water supply and sanitation accounted for 5 percent of the total lending in the region. Rapid growth and urbanisation are placing heavy pressures on infrastructure throughout the region and environmental degradation threatens to undermine the hard-fought gains made to date.

Table 9. Lending to borrowers in East Asia and the Pacific, by sector

Sector		Annual Average 1987-91	1995	1996
Agriculture		827.8	891.1	865.6
Electric Power		610.1	1,383	1,683
Environment		-	110	150
Industry		287.5	195	271
Mining		-	-	35
Oil and Gas		29.8	245	-
Transportation		573.6	960	916.9
Other		1,663.4	1,909.7	1,498.6
Total		3,992.2	5,693.8	5,420.1
of which:	IBRD	3,263.6	4,592.6	452.2
	IDA	728.6	1,101.2	1,167.9
Number of operations		37	42	46

Source: International Development Association

42. Meeting the infrastructure needs of the region has become the most significant component of the lending programme of the World Bank, accounting for about two-fifths of the new commitments (by volume) in fiscal year 1996. To cope with rapid modernisation, rising urbanisation and international integration, it is estimated that developing East Asian countries will need to invest in the next decade between US$1.2 trillion and US$1.5 trillion- or 7 percent of regional GDP- in transportation, power, telecommunications and water and sanitation facilities. Meeting this need will require large scale private sector involvement for financing and efficiency.

Table 10. Examples of environmental projects with possible linkages to climate change in East Asia and in the Pacific

Country	Project Name	FY	Bank (US$m) Cost	Total
China	Beijing Environment	92	125	299
	Tianjin Urban Develop. and Environment	92	100	195
	Environment Technical Assistance	93	50	70
	South Jiangsu Environment Protection	93	250	584
	Forest Resource Develop. and Protection	94	200	356
	Loess Plateau Watershed Rehabilitation	94	150	259
	Shanghai Environment	94	160	457
	Sichuan Gas Transmiss. and Dist. Rehab.*	94	10	123
	Liaoning Environment	95	110	351
	Nature Reserves Management*	95	18	24
	Chongquing Ind. Reform and Pol. Control	96	170	478
	Hubei Urban Environmental Protection	96	150	370
	Second Shanghai Sewerage	96	250	633
	Yunnan Environment	96	160	310
	Ozone Depletion Projects (3)**	91-96	56	58
Indonesia	Forestry Institutions and Conservation	88	30	63
	Yogyakarta Upland Area Development	91	16	25
	BAPEDAL Develop. Technical Assistance	92	12	15
	Nat. Watershed Mgmt. and Conservation	94	57	488
	Kerinci-Seblat Bio. Integr. Cons. and Dev.	96	19	47
	Kerinci-Seblat Bio. Integr. Cons. and Dev	96	15	47
Korea, Rep.	Pusan and Taejon Sewerage	92	40	130
	Environmental Research and Education	93	60	97
	Kwangju and Seoul Sewerage	93	110	530
	Environmental Technology Development	94	90	156
	Forest Management and Conservation	94	9	20
Malaysia	Ozone Depletion Projects (2)**	91-96	11	11
Philippines	Envi. & Natural Resource Management	91	224	369
	Leyte-Luzon Geothermal*	94	30	1334
	Ozone Depletion Project**	91-96	12	12
Thailand	Promotion of Electricity Energy Efficiency*	93	95	89
	Clean Fuels & Environmental Improvement	95	90	370
	Ozone Depletion Project**	91-96	13	13

* Global Environment Facility
** Montreal Protocol

Source: International Development Association

43. In South Asia, US$3 billion in new IBRD/IDA commitments were approved in FY96; of this, US$1.2 billion was from IBRD and US$1.8 billion from IDA. This number is virtually unchanged from FY95 combined lending to the region. The power sector received US$700 million; US$685 million was lent to the region for agricultural and rural development, and lending for education in FY96 was US$500 million.

44. South Asia includes some of the oldest and largest borrowers of the World Bank. In absolute terms, India is the largest single borrower, with cumulative lending of around US$42 billion at the end of FY96. Pakistan (around US$10 billion in cumulative lending) and Bangladesh (around US$7 billion in cumulative lending) are also substantial borrowers. Following Africa, South Asia is the largest regional recipient of concessional lending from the IDA. India is the largest IDA borrower.

45. The World Bank has ongoing lending programmes in seven of the eight countries in South Asia. In FY96, total lending to the region reached about US$3 billion in loans, credits, and guarantees for 22 operations, including US$1.8 billion in IDA credits. India was the largest borrower, with commitments of more than US$2 billion for nine projects, followed by Pakistan (US$460 million for five projects), Bangladesh (US$239 million for four projects) and Sri Lanka (US$156 million for three projects). Projects with specific human resources components - education, health, and nutrition - received US$877 million. Agriculture and rural development received US$684.5 million. Lending for power totalled US$700 million, while lending for infrastructure and urban development amounted to more than US$308 million.

46. Economic growth is putting pressure on the environment in South Asian countries. Many areas are experiencing increased pollution, soil erosion, land degradation, and deforestation. Preventing long-term damage will require national policies, continued assistance, and monitoring. A growing number of agriculture, infrastructure, energy and urban and rural development projects carry environmental components or provide direct environmental benefits.

<u>Table 11.</u> Lending to borrowers in South Asia, by sectors in FY 96 (US$ million)

Agriculture		684,5
Industry and Finance		271,4
Power	700	
Infrastructure and Urban Development	308	
Other		968,5

Source: International Development Association

Table 12. Examples of environmental projects with possible linkages to climate change in South Asia

Country	Project Name	FY Cost	Bank (US$m)	Total
Bangladesh	Forest Resources Management	92	125	299
Bhutan	Trust Fund for Environmental Conserv.*	92	10	20
	Third Forest Development	94	5	9
India	Integrated Watershed Development	90	55	55
	Maharashtra Forestry	2	124	142
	Alternate Energy*	93	26	186
	Renewable Resources Development	93	190	440
	Uttar Pradesh Sodic Lands Reclamation	93	55	80
	Andhra Pradesh Forestry	94	77	8
	Forestry Research Education and Ext.	94	47	56
	Bombay Sewage Disposal	96	192	280
	Coal Environment and Social Mitigation	96	65	80
	Hydrology	96	142	178
	Madhya Pradesh Forestry	95	58	67
	Ozone Depletion Projects (3)**	91-96	22	22
Nepal	Forest Management and Cons.	89	31	45
Pakistan	Environmental Prot. and Resource	92	29	57
	Conservation	93	29	40
	Northern Resource Management	93	54	71
	Fordwah E. Sadiquia Irrigation and Drainage	94	15	18
	Balochistan Nat Resource Management	95	25	34
	Punjab Forest Sector Development			
Sri Lanka	Forest Sector Development	89	20	31
	Colombo Environmental Improvement	95	39	49

* Global Environment Facility
** Montreal Protocol (include several subprojects)

Source: World Bank

47. Commitments by IBRD and IDA to Latin America and the Caribbean in FY96 totalled US$4.4 billion, US$4 billion from IBRD and US$400 million from IDA. One-fourth of the lending to the region - nearly US$1.1 billion - went to support efforts in population, health, and nutrition. Other sectors receiving a high share of commitments were public sector management, transportation, and education. Loans to the region in FY95 were over US$6 billion.

48. Countries in the Latin American and Caribbean region borrowed US$4.44 billion in FY96, down from the nearly US$6.1 billion borrowed in FY95. The three largest borrowers were Argentina (US$1.51 billion), Brazil (US$875million) and Mexico (US$526.5 million).

49. In fiscal year 1996, a total of 54 new projects was approved, totalling US$4.4 billion in new commitments. As part of an effort by the Regional Office of the World Bank to

improve loan quality and simplify operations, the average project size declined to US$82 million, down from US$85 million in fiscal 1995 and US$101 million in the year before that.

50. In addition to a substantial programme of infrastructure lending, the lending programme included support to strengthen financial systems, as well as a range of projects to assist in improved environmental management. To help ensure that future economic growth is also environmentally sustainable, World Bank projects incorporate environmental assessments, such as regional and sectoral studies and participation by non-governmental organizations (NGOs). Some infrastructure projects include support for technical assistance and training to improve environmental assessment capabilities of borrowers.

51. The regional lending programme includes a large amount of co-financing activity, US$2.1 billion for 36 projects. The Inter-American Development Bank (IDB) provided the largest amount of co-financing, US$1.6 billion.

52. The countries of Europe and Central Asia received input for 61 projects totalling US$4.2 billion approved in FY96 - US$3.75 billion from IBRD and US$476 million from IDA. Most of the lending from the trust fund (US$125 million) was made on IDA terms, with another US$25 million provided as a grant. The combined total lending to the region in FY95 was US$4.5 billion for 58 projects (US$4 billion from IBRD; US$545 million from IDA).

53. New commitments to the countries of the Middle East and North Africa in FY96 amounted to US$1.6 billion, up from US$979 million in FY95 - an increase of 63 percent. The single sectors that received the most support were the finance sector (US$408 million) and the social sector (US$223 million).

3. World Bank Group operations in support of infrastructure

54. Economic growth and future greenhouse gas emissions in the developing world are linked to infrastructure such as roads and ports, energy production and waste management systems. The World Bank Group attempts to attract private capital to developing countries for infrastructure projects and to improve the quality of infrastructure (in both social and environmental terms) through a wide range of products and services and by working with partners in the private sector:

(a) One hundred forty-two IFC operations (equity investments and loans) in an aggregate amount of US$3 billion;

(b) Thirty-seven MIGA guarantees for 18 projects in an aggregate amount of US$325 million;

(c) One hundred thirty IDA loans and credits, mainly support for legal, regulatory, and institutional frameworks that enable private participation in infrastructure. This includes adjustment lending, technical assistance, and investment operations, including loans/credits either on-lent through the state or financial intermediary, or lent directly to a private company (with a state guarantee) in an aggregate amount of US$1.5 billion; and

(d) In addition, 2 IBRD guarantees in power generation totalling US$315 million.

Table 13. IBRD and IDA lending, fiscal years 1994-96 (US$ million)

	FY94		FY95		FY96	
	IBRD	IDA	IBRD	IDA	IBRD	IDA
Power	1,368.5	-	1,743.5	*439.0*	2,899.2	*347.9*
Transportation	2,162.5	*1,130.8*	2,026.8	*104.1*	2,236.9	*535.7*
Urban development	837.5	*442.4*	1,263.5	*186.0*	632.0	*236.5*
Water supply & sewage	872.0	*103.2*	*730.3*	*309.2*	729.1	*80.7*
Total	5,240.5	*1,676.4*	5,764.1	*1,038.3*	6,497.2	*1,200.8*

Source: World Bank

55. Infrastructure financing is the fastest growing element in the portfolio of IFC, accounting for nearly one-quarter of new approvals; the role of MIGA is also growing in importance:

(a) IFC has assisted private infrastructure in forty-one countries in power, telecommunications, transportation, and water and sanitation;

(b) Much of this finance has taken the form of IFC participation in individual transactions (for power, telecommunications, transport, and utilities);

(c) IFC also participates in infrastructure investment funds that mobilize resources from major financial centres for on-lending and equity investment;

(d) IFC has helped develop local capital markets by issuing equity on stock exchanges, placing equity directly with private financial companies like pension funds, placing debt financing with local commercial banks, and obtaining debt finance through locally issued bonds. IFC also advises governments on divesting infrastructure;

(e) MIGA encourages foreign investment in developing countries by providing political risk insurance against the risks of currency transfer, expropriation, and war and civil disturbance;

(f) Since it began operations in 1989, MIGA has issued over 220 guarantees in support of approximately US$14 billion of foreign investment. In recent years, there has been a growing demand for MIGA guarantees from private investors in infrastructure;

(g) MIGA has issued 37 guarantees for a total of 18 projects in the power, telecommunications, and transportation sectors with a total coverage of US$322 million. The total cost of the projects insured exceeds US$5 billion; and

(h) MIGA provides investment marketing services to investors and countries to promote private investment opportunities, and technical assistance to developing member countries to resolve legal impediments to investment flows.

V. BASIC INFORMATION ON CONDITIONS OF SELECTED MULTILATERAL INSTITUTIONS

A. International Bank for Reconstruction and Development (IBRD)

56. The IBRD is the main lending organization of World Bank Group. It lends to developing countries with relatively high per capita incomes. The IBRD raises most of its money on the financial markets of the world. It sells bonds and other debt securities to pension funds, insurance companies, corporations, other banks, and individuals around the world. Its recent lending policies are showed in the following table:

Table 14. Lending by category (IBRD and IDA)

Categories	Percentage
Agriculture / Rural development	22%
Environment	6%
Industry / Energy	8%
Infrastructure / Urban development	15%
Other	49%

Source: World Bank

57. The IBRD currently offers three loan products for new loan commitments. This product offering is intended to provide borrowers flexibility to select terms that are consistent with their debt management strategy and suited for their debt servicing capacity. Borrowers may combine currency loan pool terms and/or single currency loan terms to finance parts of the same project or programme.

1. Currency pool loans

58. IBRD borrowers may select currency pool loan terms for new loans. The currency composition of currency pool loan obligations on the part of borrowers reflects that of the currency pool and is the same for all borrowers.

59. The lending rate for currency pool loans is reset semiannually. It is a direct pass-through to borrowers of the cost of funding of the World Bank for these loans, as recalculated on 30 June and 31 December each year. Under current policy guidelines approved by the Executive Directors of the World Bank, at least 85% of this funding is medium- to long-term fixed rate funding. As a result, the lending rate for currency pool loans has low volatility.

2. LIBOR-based single currency loans

60. The LIBOR-based single currency loan is offered to all eligible IBRD borrowers. The lending rate for LIBOR-based single currency loans is tied to six-month LIBOR in each loan

currency. It is reset semiannually. The rate is a direct pass-through to borrowers of the cost of funding of the World Bank for these loans.

3. Fixed-rate single currency loans

61. The fixed-rate single currency loan is offered to all eligible IBRD borrowers. The lending rate for each fixed-rate single currency loan is set on semiannual rate fixing dates for loan amounts (disbursed amounts) disbursed during the preceding six-month period. The rate remains fixed for such disbursed amounts until they are repaid. In effect, a fixed-rate single currency loan is like a series of fixed-rate subloans, comprising as many fixed-rate subloans as semesters in which disbursements occur.

62. The fixed lending rate is based on the fixed-rate equivalent of six-month LIBOR for the loan currency corresponding to the maturities of the disbursed amount on its rate fixing date. It is not a direct pass-through of the funding costs of the World Bank, and it includes a risk premium to compensate the World Bank for market risks incurred in funding these loans.

63. For the interim period from the date each disbursement is made until its rate fixing date, interest accrues at the same rate as is applicable to LIBOR-based single currency loans for such period.

B. International Development Association (IDA)

64. The IDA is the concessional lending window of the World Bank Group. It provides long-term loans at zero interest to the poorest of the developing countries. In FY96, IDA approved 127 new operations in 52 countries (compared to 108 credits in 48 countries during FY95). Total lending amounted to Special Drawing Rights (SDR) 4.6 billion or US$6.9 billion. This outcome reflected an overall improvement in the performance of IDA borrowers and marked a return to the commitment levels of FY91-94 (SDR 4.5-4.7 billion) following the exceptionally low level of lending of FY95 (SDR 3.8 billion or US$5.7 billion). The FY96 level is also in line with lending levels projected for FY97-99 (SDR 4.8 billion).

65. The increase was evenly divided between investment and adjustment lending. Adjustment lending grew from SDR 0.7 billion to SDR 1.1 billion, largely reflecting significant improvements in the policy performance and decision-making capacity of a number of IDA borrowers, particularly in Africa. As a result, Africa showed the largest increase in overall lending (from SDR 1.49 billion in FY95 to SDR 1.85 billion in FY96). Adjustment lending represented 41% of new lending in Africa and 24% of all IDA lending in FY96 - significantly above the FY95 levels but similar to the levels of previous years.

1. Terms and conditions of IDA credits

66. Under formal guidelines, countries with average annual per capita incomes of US$1,465 or less are eligible. In practice, however, IDA credits are given to countries with average annual per capita incomes of US$905 or less. Countries that may be creditworthy to borrow from IBRD but have average annual per capita incomes below US$1,465 could be

given a blend of IBRD loans and IDA credits. Generally, countries with annual average per capita incomes less than US$5,295 are eligible for IBRD loans. When the GNP of a country exceeds the eligibility threshold of IDA, it "graduates" from IDA and can no longer apply for interest-free credits given by IDA. It may then borrow from IBRD at market related rates. Some countries, such as China and India, are eligible for a combination of IBRD loans and IDA credits. These countries are known as "blend" borrowers.

67. Three criteria are used to determine which countries are eligible to borrow IDA resources:

- (a) Relative poverty, defined as GNP per capita below an established threshold; currently US$905 in 1995;
- (b) Lack of creditworthiness to borrow on market terms or, conversely, a need for concessional resources to finance the development programme of the country; and
- (c) A basic performance threshold, to ensure that the country meets a minimum standard of civil order and economic management to make effective use of IDA resources.

68. At present, 79 countries are eligible to borrow from IDA. Together, these countries are home to 3.2 billion people, comprising 65 percent of the total population of the developing countries.

2. IDA lending

69. IDA loans (known as credits) have maturities of 35 or 40 years with a 10-year grace period on repayment of principal. There is no interest charge, but credits do carry a small service charge, currently 0.75 percent. More than 30 member countries contribute periodically the money needed to finance "credits" to borrowers.

70. Since 1960, IDA has lent almost US$97 billion to some 90 countries. It lends, on average, about US$6 billion a year for different types of development projects, especially projects that help the poorest nations with the basic needs of their people, such as food production, clean water and sanitation, health, and environmental protection.

71. IDA funds are allocated to the borrowing countries in relation to their size, income level and track record of success in managing their economies and their ongoing IDA projects. In the next IDA period, between 45 and 50 percent of IDA funds are likely to go to countries in Sub-Saharan Africa. Most of the rest will go to Asian countries such as Bangladesh, India, Vietnam, Pakistan and Nepal, with smaller amounts allocated to China and the poorer nations of Latin America and the Caribbean, the Middle East, Europe and Central Asia.

3. IDA funding

72. Whereas IBRD raises most of its funds on the financial markets of the world, IDA is funded largely by contributions from the governments of the richer member countries. Their

cumulative contributions since the beginning total US$91 billion equivalent. Additional funds come from profits and repayments of IBRD from borrowers of earlier IDA credits.

73. Donors are asked every three years to replenish IDA funds. The 11th Replenishment will finance projects over the three years starting July 1, 1996. Funding for the 11th Replenishment will allow IDA to lend about US$22 billion, of which contributions of donors will provide about half, or US$11 billion.

4. Performance ratings

74. The policy performance of each IDA-eligible country is assessed annually. The assessment reviews performance mainly over the preceding calendar year, with supplementary consideration given to the record sustained over three years and to recent policy decisions.

75. Each country is rated. The ratings are based on three groups of criteria:

(a) Macroeconomic stability (e.g. inflation and fiscal management);
(b) Structural policies; and
(c) Portfolio performance, (i.e. the quality of implementation of ongoing IDA projects).

76. Structural policies are given by far the heaviest weight in the total rating because they have the most direct impact on stimulating labour-demanding growth and reducing poverty. These include nine policy areas:

(a) Domestic resource mobilization;
(b) Trade and exchange rate system;
(c) Public enterprises and privatization;
(d) Public expenditure and civil administration;
(e) Social sectors and safety nets;
(f) Poverty analysis and monitoring;
(g) Environment;
(h) Factor and product markets; and
(i) Financial sector.

5. Allocation process

77. Lending allocations are determined primarily by the performance of each borrower in the above areas. In addition, the IDA11 Agreement suggest that countries of Sub-Saharan Africa that perform well on a sustained basis continue to receive priority in the allocation of IDA resources. In addition, the lending allocations for the "blend" borrowers should take into account the creditworthiness of those countries for and access to other sources of funds.

78. The lending allocations are determined on a three-year rolling basis and are used for planning purposes by the World Bank operational departments. They provide a reference

point for the formulation of lending programmes in the context of Country Assistance Strategies. These, in turn, provide an opportunity for management and Board review of lending plans in relation to performance.

6. Lending and performance

79. IDA management monitors actual lending to each country in relation to the planning allocations. The allocations are administered to ensure that they respond to important changes in performance. As a result, actual lending on per capita terms is correlated with performance levels.

C. International Finance Corporation (IFC)

80. The IFC, a member of the World Bank Group, is the largest multilateral source of financing for private enterprise in emerging economies in the world. Its mandate is to promote the growth of productive and profitable private enterprises in its developing member countries.

81. The IFC taps the international capital markets to meet the needs of its clients. Since its establishment in 1956, IFC has invested more than US$30 billion in over 1,700 businesses and 120 developing member countries.

82. The IFC shares the primary objective of all World Bank Group institutions which is to improve the quality of the lives of people in the developing world by strengthening economies and expanding markets. The particular focus of IFC is on promoting economic development by encouraging the growth of productive private enterprise and efficient capital markets in member countries. IFC finances private sector ventures and projects in developing countries in partnership with private investors and, through its advisory work, helps governments create conditions that stimulate the flow of both domestic and foreign private savings and investment.

83. The IFC has three guiding principles, which are the catalytic principle, the business principle, and the principle of special contribution.

84. First, it seeks to act as a catalyst to bring private investors together in projects, using a minority investment role to mobilize additional funding through local and foreign direct investment, bank syndications, sales of participations, underwriting securities and private placements. The project financing activity of IFC has increased dramatically over the last five years, from US$2.8 billion in 1991 to $8.1 billion in 1996.

85. Second, IFC functions as a business in partnership with the private sector, taking the same commercial risks in order to create profitable enterprises. In so doing, IFC makes a sustainable contribution to national income and employment generation.

86. Third, IFC participates in an investment only when it can make a special contribution that complements the role of market operators. This special contribution can take a wide variety of forms, including attracting investment to countries that private investors consider excessively risky or creating model transactions that are replicated by other market players, for example, financing the first private infrastructure project of a particular country or its first leasing company, or advising on a privatisation.

87. The development mandate of IFC is what differentiates it from commercial financiers. In executing this mandate, IFC attempts to value project proposals by:

(a) Subjecting them to tests of financial viability, since businesses that are not financially sound are not sustainable and cannot contribute to development;
(b) Adding or enhancing technical, financial and environmental features;
(c) Applying World Bank environmental guidelines to ensure that firms financed by IFC contribute to sustainable development;
(d) Testing for economic viability, which requires the ability to compete in global markets without subsidies or tariff protection; and
(e) Providing advice in areas such as capital markets and privatization.

88. The IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. Consistent with its focus on private enterprise, IFC does not accept government guarantees; IFC prices its financing and services in line with the market.

1. Lending criteria

89. In order to receive funding, projects must meet a number of IFC guidelines. Whether it is the establishment of a new enterprise or the expansion of an existing one, the project must be in the private sector, it must be technically sound, it must have a good prospect of being profitable, and must benefit the local economy. Another important criterion for IFC investments is that the project be environmentally sound.

90. To ensure the participation of other private investors, investment from IFC is usually limited to 25 percent of the total project cost. Investments in small and medium projects range from US$100,000 to US$1 million and in standard-size projects from US$1 million to US$100 million.

91. IFC provides a wide variety of financial products from which its clients can choose. This allows IFC to offer a mix of financing that is tailored to meet the needs of each project. However, the bulk of the funding as well as leadership and management responsibility lie with private sector owners.

92. There is no standard application form for IFC financing. A company or entrepreneur, foreign or domestic, seeking to establish a new venture or expand an existing enterprise can approach IFC directly. This can be done by requesting a meeting or by submitting preliminary project or corporate information. After these initial contacts and a preliminary

review, IFC will request a detailed feasibility study or business plan to determine whether or not to appraise the project.

93. Loans are the largest product of IFC. IFC provides fixed and variable rate loans in any of the leading currencies. These loans typically have maturities of 8 to 12 years, with grace periods and repayment schedules determined on a case by case basis in accordance with the cash flow needs of the borrower. If warranted by the project, the IFC provides longer term loans and longer grace periods.

94. Equity investments of the IFC are based on project needs and anticipated returns. It is never the largest single shareholder and does not take an active role in company management. IFC is considered a passive investor. To meet national ownership requirements, the shareholdings can be treated in some cases as domestic capital or "local" shares. The IFC usually maintains its equity investments for a period of 8 to 15 years and is considered a long-term investor. After some time, it may sell its shares through the domestic stock market. The IFC provides a full range of quasi equity finance, including convertible debentures, subordinated loans, loans with warrants and other instruments. These products are provided, whenever necessary, to ensure that a project is soundly funded.

95. The full array of financial services that IFC offers its clients include its risk management services. Since the inception of this programme in 1990, the Board of IFC has approved 57 risk management projects representing an exposure of approximately US$390 million to clients in
20 countries. Transactions have been completed to hedge notional amounts of more than US$1.2 billion. IFC is one of the few organizations prepared to offer risk management products to clients in developing countries. By allowing private sector clients in the developing world to access the international derivatives markets in order to hedge currency, interest rate or commodity price exposure, IFC enables these companies to enhance their creditworthiness and long-term profitability.

96. Other financial products offered by IFC include credit and equity lines, venture capital, and leasing. IFC is investing in credit lines and private equity funds to make longer-term finance available to SMEs as they seek to enhance their competitiveness in more open economies around the world. Credit lines to developing country banks helps redress the limited availability of term funding that constrains the ability of these banks to provide working capital and investment financing for their corporate customers.

97. Venture capital funds of IFC help channel flows to companies that are generally unlisted and that might not receive the notice of large investors. In many regions of the world, particularly those experiencing rapid privatization, such as Eastern and Central Europe, small private companies are the principal engines of economic growth and employment creation.

98. Leasing is essential to the development of SMEs, which typically lease costly capital equipment. Leasing plays a critical role in financial sector development in countries with small economies or low per capita incomes. IFC has been active in helping establish leasing

industries in a number of countries, including Bangladesh, Estonia, India, Indonesia, Lebanon, Morocco, Pakistan, Uganda, Uzbekistan, Vietnam and countries of the West African Monetary Union (WAMU).

Table 15. Regions (including syndications), fiscal year 1996

Region	(US$ million)	%
Total	8,100	100
Latin America	3,627	45
Asia	2,763	34
Central Asia, Middle East		
North Africa	910	11
Europe	610	8
Sub-Saharan Africa	190	2

Source: World Bank

Table 16. IFC financing of sectors, fiscal year 1996

Projects	(US$ million)	%
Total financing	8,100	100
Own account	(3,200)	
Form of underwriting and syndications	(4,900)	
Infrastructure	2,247	29
Chemicals, petrochemicals, and fertilizers	840	10
Food and agribusiness	811	10
Mining of metals, other ores, and fuel minerals	643	8
Cement and construction materials	497	6
Oil refining	302	4
Other	2760	33

Source: International Finance Corporation

D. Multilateral Investment Guarantee Agency (MIGA)

99. The Multilateral Investment Guarantee Agency (MIGA) was established on 12 April, 1988, as the newest member organization of the World Bank Group. Its purpose is to encourage the flow of foreign direct investment to its developing member countries for economic development. Its primary means of facilitating investment is through the provision of investment guarantees against the risks of currency transfer, expropriation, and war and civil disturbance ("political risks").

1. Guarantee programme

100. Through its guarantee programme, MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to foreign investors in developing member countries. The programme is designed to complement national and private investment insurance schemes.

101. The MIGA underwrites directly and also cooperates with other political risk insurers through coinsurance and reinsurance arrangements to provide investors more comprehensive investment insurance coverage worldwide. In 1995 it also introduced a brokerage programme, encouraging investment brokers to cooperate with MIGA.

102. The MIGA offers long-term, low maintenance political risk insurance coverage to eligible investors for qualified investments in developing member countries. The MIGA insures against the following risks: currency transfer, expropriation, war and civil disturbance.

103. MIGA investment guarantees are long-term. The standard coverage term is 15 years (non-cancellable by MIGA) which may be extended to 20 years under certain circumstances. MIGA can insure new cross-border investments originating in any MIGA member country, destined for any developing member country. New investment contributions associated with the expansion, modernization, or financial restructuring of existing projects are also eligible, as are acquisitions that involve privatisation of state-owned enterprises. New investments are those that have neither been made nor irrevocably committed on the date of submission to MIGA of a Preliminary Application for Guarantee signed by the investor. In keeping with the objective of MIGA aimed at promoting economic growth and development, investment projects must be financially, economically and environmentally sound, and contribute to the development of the host country.

104. The MIGA insures investments in a wide range of industries. The types of foreign investments that can be covered include equity, shareholder loans, and shareholder loan guarantees, provided the loans have a minimum maturity of three years. Loans to unrelated borrowers can be insured, provided a shareholder investment in the project is insured concurrently or has already been insured. Other forms of investment, such as technical assistance and management contracts, and franchising and licensing agreements, may also be eligible for MIGA guarantees.

105. An eligible investor is a national of a MIGA member country other than the country in which the investment is to be made. However, under certain conditions, investments made by nationals of the host country are also eligible. A corporation is eligible for coverage if it is either incorporated, and has its principal place of business, in a member country or if it is majority-owned by nationals of member countries. A state-owned corporation is eligible if it operates on a commercial basis.

Table 17. Examples of guarantees issued during fiscal year 1996

Guarantee Holder	Project Description	Host Country	Max.Cont. Liability (US$m.)
New World Power Corporation	Hydroelectric Power Plant	Argentina	2.25
Lloyds Bank Plc.	Automotive Parts Factory	Brazil	12.00
Puerto Seco S.A.	Automotive Parts Factory	Brazil	3.00
Rover Exports Limited	Auto Assembly Factory	Bulgaria	1.19
Rover Overseas Holdings Ltd. (2)	Auto Assembly Factory	Bulgaria	3.78
Andre & Cie S.A. (5)	Agrobusiness	China	12.59
Atlantic Commercial Finance B.V.	Diesel Power Plant	China	16.70
ING Bank N.V.	Silk Production	China	4.00
UBP Hungary, Inc. (2)	Iron Foundry	Hungary	3.24
Capital Indonesia Power I C.V.	Power Plant	Indonesia	50.00
Barge Energy, L.L.C.	Diesel Power Plant	Jamaica	3.05
Illinova Generating Comp	Diesel Power Plant	Jamaica	3.05
Metra Oy Finance ABDiesel	Power Plant	Jamaica	12.60
Scudder La. Am. Pow. I-C, L.D.C	Power Plant	Jamaica	0.06
Scudder La. Am. Pow. I-P, L.D.C.	Diesel Power Plant	Jamaica	6.03
Wartsila Power Development, Inc.	Diesel Power Plant	Jamaica	17.40
Union Carbide Corporation	Petrochemical Facility	Kuwait	50.00
ABB Kraft ASHydroelectric	Power Plant	Nepal	1.80
Kvaerner Energy A.S. Hydroel.	Power Plant	Nepal	1.80
Statkraft SFHydroelectric	Power Plant	Nepal	29.23
Imp. Chem. Industries PLC	Polyester Fiber	Pakistan	9.24
Marubeni Corporation Zinc	Refinery	Peru	9.36
BOC Holdings	Hydrogen Plant	Venezuela	30.00

Source: World Bank

2. Lending results

106. MIGA experienced record growth in its investment guarantee business in FY1996. This could be observed in the number of guarantee contracts issued, amount of coverage underwritten, and foreign investment facilitated.

107. Overall, the 223 guarantee contracts of the Agency have covered investments by investors from 21 member countries to 40 developing and transition economies around the world. One measure of the development impact of MIGA is that the total estimated foreign direct investment facilitated (US$15.2 billion) by its insured projects is about seven times the amount of its current outstanding contingent liabilities (US$2.3 billion).

108. The strong demand for guarantee services from MIGA has increased from US$132 million in FY1990 to US$2.3 billion in FY1996. The Board of Directors of MIGA increased the risk-to-assets ratio allowable to the Agency, from 1.5 to 2.5 in FY1994, and further to 3.5 in FY1996. At the end of FY1996, capital and reserves available to MIGA were US$1.11 billion, which allows the Agency to issue up to US$3.94 billion in coverage (i.e. US$1.5

billion of additional coverage for projects beyond its current exposure). The continuing demand from investors for guarantees from MIGA has prompted the Agency to seek an increase in its authorized capital to allow further expansion of its business.

Table 18. Outstanding portfolio by sector (Maximum Contingent Liability)

Total portfolio 1996: US$ 2,276 million 173 contracts as of 30 June 1996	
Agrobusiness	2%
Infrastructure	12%
Mining	22%
Oil & Gas	3%
Other	61%

Source: World Bank

109. The Latin America and Caribbean region has the highest portion of the portfolio, reflecting the interest of investors in this region. Increasing opportunities in Africa and the Middle East have resulted in the relative growth of the portfolio MIGA has in these regions.

110. The proportion of MIGA contracts issued for investments in Latin America and the Caribbean partially reflects the more complex infrastructure power projects covered by the Agency involving multiple equity investors and commercial banks. In Africa and Asia, MIGA has tended to insure small and medium agrobusiness, manufacturing and mining investments.

E. Global Environment Facility (GEF)

1. The role of the GEF

111. The Global Environment Facility provides grants and concessional funding to recipient countries for projects and programmes that protect the global environment and promote sustainable economic growth. The grants made available within the framework of the financial mechanism of the Convention conform with the eligibility criteria set forth by the COP. The criteria provide that only developing country parties are eligible to receive funding from the GEF under the financial mechanism.

112. The GEF covers the difference (or "increment") between the costs of a project undertaken with global environmental objectives in mind, and the costs of an alternative project that the country would have implemented in the absence of global environmental concerns. To further develop the concept of incremental cost and its practical implementation, a research programme (the Programme for Measuring Incremental Costs for the Environment -PRINCE-) was launched in early 1993. GEF operations are intended to complement, not substitute for, regular aid programmes. GEF resources aim to facilitate

projects with global environmental benefits for which official development funds are not normally available.

113. The GEF promotes international cooperation and facilitates action for integrating global environmental concerns into sustainable development. The GEF focus is on four areas: climate change, biological diversity, international waters and ozone layer depletion.

114. The funds are directed toward measures that enhance and protect the global environment. Activities concerning land degradation (desertification and deforestation) are eligible for GEF funding if they are related to the four focal areas. The fund will not finance activities in the areas of biodiversity and climate change that do not fully conform to the guidance from relevant COPs.

2. Lending criteria

115. The GEF is striving for universal participation and currently 156 countries are participants. Countries may be eligible for GEF funds in one of two ways:

(a) If they are eligible for financial assistance through the financial mechanism of either the Climate Change Convention or the Convention on Biological Diversity; and

(b) If they are eligible to borrow from the World Bank (IBRD and/or IDA) or receiving technical assistance grants from UNDP through a Country Programme. A country must be a Party to the Climate Change Convention or the Convention of Biological Diversity to receive funds from the GEF in the relevant focal area. Governments may apply for GEF funds directly to any of the implementing agencies. NGOs can do the same once the government has endorsed the project in principle. Projects submitted for funding under the Small Grants Programme in the 33 countries where the programme is operational should apply directly to the national committee of the GEF Small Grants Programme.

116. The GEF will fund projects which are country driven and based on national priorities designed to support sustainable development, as identified within the context of national programmes. Global programmes and projects have to be designed to facilitate national level efforts to achieve global environmental benefits.

117. In accordance with the provisions of the conventions and the GEF Instrument, the use of GEF resources for purposes of the conventions is to be in conformity with the policies, programme priorities and eligibility criteria decided by the COP of each of those conventions. The COP to the Convention on Biological Diversity at its first meeting (Nassau, 1994) approved the policies, strategy, programme priorities and eligibility criteria for access to, and utilization of, financial resources under the financial mechanism of the conventions. Similarly, the COP to the UNFCCC at its first meeting (Berlin, 1995) adopted initial guidance on policies, programme priorities and eligibility criteria to be followed by the operating entity or entities of the financial mechanism. The guidance of both conventions has been fully reflected in the GEF operational strategy.

118. The GEF Council is the organ responsible for developing, adopting and evaluating the operational policies and programmes for GEF financed activities. It must approve the joint work programme. Proposals approved in the work programme will be developed by the implementing agency. Before final approval by an implementing agency, the Chief Executive Officer of the Facility will endorse each project to ensure its consistency with the approved workplan.

3. GEF and UNFCCC/COP decision

119. The following summarizes how the financial mechanism has responded to the guidance of the COP as set forth in Decision 11/CP.1 (FCCC/CP/1995/7/Add.1), (initial guidance on policies, programme priorities and eligibility criteria to the operating entity or entities of the financial mechanism):

(a) All GEF project financing to date has been provided on a grant basis. Approved projects have included ten enabling activity components in the least developed countries;

(b) The GEF Project Cycle provides that the country operational focal point is responsible for reviewing project ideas, endorsing their consistency with respect to national programmes, and confirming that project ideas are supportive of national priorities. All project proposals, as well as requests for project preparation funding, submitted for approval need government endorsement from the given operational focal point;

(c) The GEF Operational Strategy provides that GEF financed activities are to be environmentally, socially and financially sustainable, and not merely more benign forms of current, but unsustainable, activities. In addition, GEF financed activities are to avoid the transfer of negative environmental impacts. Project designs are to be consistent with the Operational Strategy, as it applies to the other focal areas. They must avoid creating negative impacts in other focal areas;

(d) Since its restructuring, the GEF has financed 24 projects that will contribute to the abilities of countries to prepare first national communications to the Conference of the Parties. In most instances, these projects will pay the full costs of preparing national communications. In other cases, financial support provided by the GEF will complement support from other resources to meet the full costs of communications. These 24 projects will provide assistance to 55 countries. In addition, GEF funded projects in its Pilot Phase are currently providing assistance to 20 more countries. In total, US$53 million has been provided by the GEF to support 75 countries in preparing part or all of their first national communications to the Conference of the Parties;

(e) Future targeted research activities must be developed within the context of the long-term operational programmes identified in the Operational Strategy;

(f) The largest amount of funding to date in the climate change focal area has been directed to agreed activities that mitigate climate change either by addressing anthropogenic emissions by sources or through removals by sinks of all greenhouse gases not controlled by the Montreal Protocol. By emphasising long-term mitigation measures, the initial reductions of greenhouse gas emissions will be less than those resulting from a strategy exclusively focused on short-term measures. However, the cumulative long-term impact is expected to be much greater because the projects will drive down costs, build capacity, and start to put in place technologies that can ultimately avoid (rather than merely reduce) greenhouse gas emissions;

(g) The guidance of the COP concerning eligibility of activities is strictly followed. Even when the GEF provides assistance to countries outside the financial mechanism of the Convention, it ensures that the activities are fully consistent with the guidance provided by the COP;

(h) The GEF Operational Strategy provides that GEF operations will be programmed in three broad, interrelated categories, long-term operational programmes, enabling activities, and short-term response measures. These three categories follow the guidance of the COP. The strategy also provides that in view of the limited resources available to GEF and the finite capacities of recipient countries and Implementing Agencies to programme activities at any given time, the GEF must structure and sequence activities to best achieve global environmental objectives. The sequencing of GEF tasks will be a dynamic process, shaped in part by the evolving nature of guidance from the relevant Conventions and the increased capacity for programme development; and

(i) The GEF provided the COP at its second session with a report on its activities in the climate change area (FCCC/CP/1996/8). The COP took note of the report and with its decision 11/CP.2 (FCCC/CP/1996/15/Add.1) gave further guidance to GEF for its activities and requested the GEF to report to the COP at its third session on the implementation of this guidance.

4. Implementing agencies

120. Both the Framework Convention on Climate Change and the Convention on Biological Diversity have designated the GEF as their funding mechanism on an interim basis with projects and programmes managed through three implementing agencies as described below:

121. The UNDP is responsible for technical assistance activities and capacity building. Through its worldwide network of offices, UNDP helps to identify projects and activities consistent with the purpose of the GEF and national sustainable development strategies. It is also charged with running the Small Grants Programme for non-governmental organizations (NGOs) and community groups around the world.

122. UNEP is responsible for catalysing the development of scientific and technical analysis and advancing environmental management in GEF-financed activities.

123. The World Bank is the repository of the Trust Fund, and is responsible for investment projects. It will also seek to mobilise resources from the private sector in a manner that is consistent with GEF objectives and national sustainable development strategies.

5. References

124. As useful background for GEF activities it is possible to refer to the following documents:
(a) GEF Operational Strategy;
(b) GEF Annual Report 1996; and
(c) GEF Quarterly Operational Report, November 1996.

VI. SUMMARY

125. Bearing in mind that this is the initial paper on terms of transfer and know-how, the following is a summary of the main points:

(a) "Terms of transfer" is a very broad issue covering both financial and other aspects such as measures affecting admission, establishment, ownership, control and operations of goods (technologies), services and firms;

(b) Very limited financial data is available on specific sectors, particularly data on private sector investments, relevant to the Convention. In some cases the data from different sources is contradictory. It is even more difficult to determine whether the increase in financing is devoted to projects that are climate "friendly" or not;

(c) Overall financial flows have expanded by 184 percent in the 1990s, particularly from the private sector, while official financial flows have decreased by 27 percent. Least developed countries received the smallest amount of financing, but on average private capital flows increased by a factor of six, about the same as the increase to other countries. However, there are large differences among the least developed countries in this respect;

(d) There are many sources of financing such as official development finance, including loans and grants provided by multilateral institutions and bilateral agreements and private sector finance, provided by commercial banks and private companies;

(e) Concessional financing, for example, which is available from the IDA, is dependent upon meeting criteria related to relative poverty, creditworthiness and other basic performance standards such as civil order;

(f) The commercial terms under which environmentally sound technologies could be transferred are related to the capability of countries to attract capital which is determined by their macro-economic stability. Key factors affecting the latter are low rates of inflation, sound fiscal management, structural policies, market reforms and the regulatory environment; and

(g) Multilateral institutions now regularly carry out environmental assessments of all new projects. This is an important criterion for some forms of finance.

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