

# International Loan Agreement with the International Bank for Reconstruction and Development (World Bank)

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## Key definitions: international loan agreement, international law, International Bank for Reconstruction and Development

**W**ho is the International Bank for Reconstruction and Development and what is its main purpose? The International Bank for Reconstruction and Development, commonly referred to as World Bank was established in 1944. Although the main purpose of the World Bank is to help Europe rebuild after World War II, now the Bank provides loans and other assistance primarily to less developed and developing countries around the world. [1]

The purposes of World Bank as set forth in the Articles of Agreement may be summarized as follows:

1) to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive process;

2) to promote private foreign investment by means of guarantees or participation in loans and other investments made by private investors

3) when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources. [2]

But the main issue is how World Bank carries out its activities. The Bank conducts its activity through loan operations, concluding loan agreements with member states or non state borrower.

The Article deals with the futures of the Loan Agreements between World Bank and Mem-

bers. This Loan Agreements differs from Commercial Loan Agreements. Thus “autonomy of the willing” is the main principle for the Commercial Loan Agreements. Parties define the terms of the Commercial Loan Agreements through negotiations; they can independently define third country’s law as an applicable law to the agreement. However the situation is different for Loan Agreement made with World Bank.

The World Bank made up of member countries which have agreed to the Bank’s Articles of Agreement [3] and the Bank’s by laws which prescribe specific financing purposes for the World Bank. The World Bank’s Articles of Agreement require the imposition of certain basic terms and conditions for its loan and guarantee operations [2].

Every Loan agreement between the World Bank and a member state, and every guarantee agreement is an international agreement “governed by international law” [4] as both parties to such agreements have international legal personality. These agreements are treaties in the broad sense of the term, as a matter of international law”.

Another different aspect is that World Bank loan agreements apparently have never been formally addressed through arbitration or in attempted litigation. [5]

But the other issue is what will happen if the Member state cannot reimburse the lending money to the World Bank. Of course, before lending, the sustainability of the borrower’s repayment is controlled or loans become well secured and in process of collection. And World Bank also ensures itself in different way. If a member country failed a scheduled payment, after 30 days World Bank suspend

any new loans being prepared for that country. Or World Bank makes payments of loan in installments and after 60 days of failing World Bank ceases to provide any money under existing loan agreement.

There are also other negative aspects of non-repayment of loans back World Bank. The reputation of the state commences to decrease over the world and every institution; organizations stopped lending to this country. Foreign investors would quit the stock markets and inflation would rapidly increase destroying savings and destroying wealth. The same scenario happened for Greece. As Greece defaulted on its IMF loans, big crises started in the country. Even if Greece wants to grow in the future it has to repay that loan. So if country defaulted to repayment of loans it emerges negative circumstances for the country, especially the country becomes “isolated” from the world and is obliged to repay the loans for ever.

Now World Bank is lending vast sums of money to public sector borrowers in Central and Eastern Europe and Asia, where political and legal stability is tentative at best. It should come as no surprise if some of those borrowers are tempted to unwillingly renege on those loans in a few years when they start coming due for repayment [6].

Consequently, the mission statement of the IBRD states that it “aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development, through loans, guarantees, and non-lending-including analytical and advisory-services”, World Bank is not charitable organization. World Bank provides the Member State with loans for specific projects and this loans shall be repaid otherwise it makes the borrower state depend on other states or World Bank.

#### REFERENCES:

1. <http://www.worldbank.org/en/about/what-we-do/brief/ibrd>;
2. “Some Observations Regarding Environmental Covenants and Conditionalities in World Bank lending activities”, Mohammed Abdelwahab Bekhechi, Max Planck UNYB 3 (1999), page 287;
3. IBRD Articles of Agreement – UNTS Vol.2 No.20 (b), amended by TIAS No 5929, 16 December 1965, and IDA Articles of Agreement-UNTS Vol.439 No.6333.

4. Aron Broches, supra note 2.at 353;
5. Mark Augenblick & Delissa Ridgway, Dispute Resolution in World Financial Institutions, 10 J.INTL.ARB.73, 82 (1993);
6. “Evolution of the Governing Law for Loan Agreements of the World Bank and Other Multilateral Developments Bank”, John W.Head, American Journal of International Law, 90 Am. J. Int’l L.214 (1996).

#### Xülasə

Açar sözlər: beynəlxalq kredit müqaviləsi, beynəlxalq hüquq, Yenidənqurma və İnkişaf Bankı

Məqalədə Dünya Bankının Üzv Dövlətlərlə imzaladığı beynəlxalq kredit müqavilələrinin hüquqi və praktiki aspektləri nəzərdən keçirilmişdir. İlk əvvəl Dünya bankının fəaliyyət istiqamətləri və məqsədləri açıqlanmış, növbəti abzaslarda isə Dünya Bankının beynəlxalq kredit müqavilələrinin müsbət və mənfi tərəfləri analiz edilmişdir.

#### Резюме

Ключевые слова: Международное кредитное соглашение, международное право, Международный Банк Реконструкции и Развития

В статье были рассмотрены правовые и практические аспекты международных договоров займа, подписанные между Всемирным банком и государствами-членами. В первую очередь, было объяснено политика и цели Всемирного банка, а в следующих параграфах были проанализированы положительные и отрицательные стороны международных договоров займа Всемирного банка.