

# CZECH UNIVERSITY OF LIFE SCIENCES

**Faculty of Economics and Management**

**Department of Economic and management**



Diploma Thesis  
*(World Bank's Role in Helping Developing Countries, case study;  
Egypt)*

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## **Declaration**

I declare that the thesis “*World Bank’s Role in Helping Developing Countries, case study; Egypt;*” *Time period 1990-2010*, has been completed by me, without any other outside help and only the defined sources, and study aids were used; they are cited in the thesis and provided at the end of the thesis.

Prague, the June, 2012

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Melad Abdulrahman

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## **Abbreviations used**

International Monetary Fund.....	IMF
World Bank.....	WB
Direct Foreign Investment.....	DFI
Indirect Foreign Investment.....	IDFI
International Finance Corporation.....	IFC
International Foundation Development.....	IFD
International Financial.....	IF
International Development Agency.....	IDA
Board of Governors.....	BG
Board of Directors.....	BD
Board of Administration.....	BA
Balance of Payments.....	BoP
International Payments.....	IP
Exchange Rates.....	ER
International Trade.....	IT
Global Economy.....	GE
United Nations.....	UN
World Population.....	WP
Gross Domestic Product.....	GDP
Population Growth.....	PG
Foreign Exchange.....	FE
Foreign Investments.....	FI
World Trade Organization.....	WTO
Economic Reforms and Structural Adjustment Program.....	ERSAP
Country Assistance Strategy.....	CAS

**Diploma Thesis Title:**

*(World Bank's Role in Helping Developing Countries, case study; Egypt)*

**Diplomová práce Název:**

*(Světová banka, jehož úkolem je pomoci rozvojovým zemím, případová studie, Egypt)*

**Summary:**

The World Bank is considered as an international financial institution that plays roles to provide loans to developing countries for capital programs. The World Bank's goal is the reduction of poverty in these countries. The inadequacy of the bank's role in funding the needs of the developing countries in terms of external financing, especially the needs of these countries increase from year to year. Influence of the World Bank's policy by considerations, factors and political positions of the major capitalist countries with the lenders. The goals both those drawn by the WB or those expected from the Egyptian government had achieved only little of them according to consensus of all analysts, whether Egyptians or the WB experts, who have demonstrated in their reports of resentment at the worsening situation economic development in Egypt which has a high proportion of the population increase is not commensurate with the level of development.

**Souhrn:**

Světová banka je mezinárodní finanční institucí, jejíž hlavní rolí je poskytování půjček rozvojovým zemím na kapitálové programy. Cílem Světové banky je snížení chudoby v těchto zemích. Role Světové banky je v rámci externího financování potřeb rozvojových zemí nedostatečná, obzvláště když se potřeby těchto zemí rok od roku zvyšují. Vliv politiky Světové banky je spojen s faktory a politickým postavením velkých kapitalistických zemí s věřiteli. Cíle Světové banky či ty očekávané egyptskou vládou byly dle konsensu všech analytiků, ať už egyptských nebo těch ze Světové banky, dosaženy jen z malé části. Všichni tito odborníci projeví ve svých reportech rozhořčení nad zhoršující se situací hospodářského rozvoje Egypta, jehož populační růst neodpovídá úrovni rozvoje.

**Key Words:**

World Bank, Egypt, Foreign loans, external debt, foreign exchange, economic feasibility, currency exchange, national income, developing countries, developed countries, total populations, and growth rate.

**Klíčová slova:**

Světová banka, Egypt, zahraniční půjčky, zahraniční dluh, cizí měna, ekonomická proveditelnost, směna měn, národní důchod, rozvojové země, rozvinuté země, celková populace a úroveň růstu.

## **Introduction:**

Our world is divided into two groups of countries urban countries and developing countries or poor countries, and we can observe the difference and change from day to day between these two groups. That leads the people who live in developing countries to get less than 20% of the total world income according to World Bank statistics. Also, there is 50% of the population in the world are getting less than 6.5% of the total world income.

The difference was based on the historical circumstances, especially after the World War II. These circumstances led to low benefit in international trade between the countries and made damage for the international economy which led to increase the number of unemployment and the result has been unrest in many societies in the world. The U.S.A was in the best position comparing to the Western Europe because it exited from the World War II, which was adverse economy because it reduced the international trade and impost many countries to restriction in order to preserve its dwindling reserves of foreign currencies and gold, and it was spending by army during the World War II period.

In addition, this situation led some countries to attempt to raise their exports, and due to this situation there were forty-five countries have decided to do an international conference, and one of them was the United States and the rest were Western Europe. The conference was calling Bretton Woods and it was in 1944. It was aimed at that time specifically to establish a monetary system to be adapted with the new circumstances. The conference included for the most outstanding economic event in the twentieth century with the establishment of the largest economic institutions, namely "International Monetary Fund (IMF) and International Bank for Reconstruction & Development (I.B.R.D)." there were 146 countries that attended this conference while today the number of members increased to 180 countries in these institutions.

World Bank has different to other conventional banks because it does not have any deposits of long-or short-term. It focused and concentrated on financing program of economic development in the whole world, and giving the developing countries some privacy with respect to its assistance and to provide some financial services and technical with soft conditions. Actually, the impact of the bank was starting well in many countries in Asia and Western Europe and it has affected the economic structure positively. Also, it has been supported by exports of many developing countries by focusing on the industrial sectors and tourism sectors to develop them. That was done by loans and investments and that impact on progressive countries to open their markets against the export of the developing countries.

With the passage of time, the widening levels increased between developed countries and developing countries. That leads many economists' researchers to study the real role for the World Bank. Compared to the rules, there were goals into

this economic institution. Two important rules were considered: First, it is assistance to developing countries on one side. Second, extents control from the developed countries, especially the United States, and use it as a trump for its conflict to maintain its leadership so-called free world.

The World Bank has played a profound role in development of Egyptian economy and reduction of poverty in all regions of the country. During the last two decades, the World Bank has transformed education, healthcare and agricultural sectors in Egypt in order to create favorable environment for further economic growth and development. Recent years many international markets have been increasingly liberalized and opened to competition. Egypt is the countries which have been involved in international economic activity many years ago, but still it shows average economic indicators in comparison with other developing countries. In spite of this fact, Egypt represents an attractive market for international companies being one of the main destinations for tourists all over the world. Special interventions performed by the WB transformed the underdeveloped country to the developing economy with stable economic and social sectors.

### **Research Problem:**

The problem of this study leads to learn the role of the WB and its ways to achieve the goals that it was established for and help the developing countries that need help for their economy. To fulfil that, we will wonder about WB's role and its relation with developing countries especially with Egypt and what it fulfilled till this time. Now we will show those wonders as the following questions:

1. Did the WB fulfil the goals that it was established for?
2. Is there some political consideration entered for assistance loans?
3. Is the economic development done in the developing countries that received and still receive helping from the WB?
4. Does the WB helped Egypt to improve its economy?

### **Research Imposition:**

To treat with this problem of the research impositions and try to prove that by one of its chapters in this study and its consequences:

1. The WB has not achieved the objectives which it was established with regard to assisting developing countries.
2. The WB Contributed to helping many developing countries to achieve some of their developing problems.

## **The Importance of Research:**

Study the role of the WB for helping the developing countries is great of importance in several sides at the level. Search for this topic leads to reach accurate results and it may also lead the developing countries to stop and see these institutions' role and how they were helping them. It stimulated to creativity, innovation, and reliance on itself also try to achieve progress and growth through the selection of appropriate development programs and lead its nation to achieve economic well-being and their relationship to the other nations of the world.

The theory and scientific side they are indicate to stimulate the researcher to recognize the important side of work in the international economic institution and its role in the international economy on one side and helping poor countries on the other side.

## **Research's Aims:**

The research will be done to show the WB's role and its relation with helping the developing countries and understand the type of helping for those countries. Also, to show its real goal and evaluation for the institution's work by development planning programme that it may work to execute in these countries through the following points:

1. Put the WB through its history context and its establishing reason.
2. Understand the role played by the WB, and look at its stated and real goals.
3. World Bank analysis with these countries and the feasibility of programs through the past experiences.
4. Evaluate the results achieved so far, and look to the future role under the current international economic conditions.
5. Know the WB deals with the Egyptian economy and its rules to improve it.

## **Research Methodology:**

This research depends on the analytical and descriptive, and it attempts to reach accurate detailed and knowledge of the components of the research problem by scientific method and analysis the data and facts related on this research.

## **Research Scope:**

The limitation of this research is spatial form of the developing countries and study case on Egypt the time period of this research is from 1990 to 2010.

## Previous studies (literature review):

- ❖ Muttalib Abdul Hameed Studies "*New international economic system and future prospects.*" The result of this study is the following:
  1. The administration of the World Bank is still greatly affected by five countries, especially the U.S.A and it was getting 20% votes of the WB.
  2. The WB offers just little of development industrial projects and economic development in developing countries. While its interesting goes in units that have related to agriculture, energy, and infrastructure.
  3. Increasing conditionality of the WB, especially in the structural reform programs that need to be considered by the bank to law more an appropriate to the circumstances of developing countries. That is enough to point out that the time factor and the social element. That led developing countries to claim the WB resulted in difficulties and risk situation. So, WB needs to review its policy and accept the gradient's policies and integration of social requirements as part of its program.
- ❖ Mohammed Abdulaziz Mohammed Al-hash studies "*International Monetary Fund and World Bank poverty industry in developing countries.*" This study concluded to the following:

The World Bank's and the International Monetary Fund's policies were not succeeding to help the developing countries for different of reasons, including:

- a. These institutions funding was weak.
  - b. Monopoly of the rich countries to get a greater share of loans.
  - c. Benefits were not inseparable in these loans.
  - d. Workers were ignorant for how to do plans of developing countries.
- ❖ Mjed Al-dean Hmash studies "State and development in the context of globalization." Al-mjed center for Publishing in 2004. This study concluded to the following:
    - a. The WB failed to follow the traditions of the developing countries because that would help its plans to consistent with culture of these communities.
    - b. The International institution fund has limited resources due to the expansion of poor countries.
    - c. Benefits were not inseparable in these loans.
    - d. The emergence of political role in some cases with regard to who has the right to get help.

- ❖ Haithem Azam studies “International Fund.” Cairo University in 1990. The study indicates that obstacles have increase in the ineffectiveness of helping to the developing countries, either through international economic institutions (IMF and WB) or others.

# **Chapter One**

**World Bank's objectives and the means  
and the characteristics of developing  
countries**

## **Part one: The establishment of the World Bank - Goals and Means.**

**First;** The definition and establishment

World Bank can be defined as the global economic institution responsible for managing the international financial system and attention to the application of economic policies to achieve economic development of member states. Therefore, it has responsible primarily focused on development policies, investments, and structural reform policies and the allocation of resources in the public and private sectors. Also, it cares about the World Bank creditworthy because it is sometimes resort to lending from international capital markets.

The establishment of the World Bank after the International Monetary Fund in an attempt to integrate in its work, so it is unlike the IMF it focuses on programs and long term loans, it has required before it is entering into any development process what is called the installation phase, this stage is an attempt to reduce inflation as much as possible. As well as an attempt to overcome the budget deficit, and correct the exchange rate, World Bank considers that these stages is essential before starting any development process to be successful, hence, the inferred association ((complementary)) between each of the World Bank and International Monetary Fund and their role in the areas of financing for development, before the World Bank has established by Bretton Woods in July 1944 and the first inaugural meeting of governors from 8\_14 March 1946 in the city of Safana, Georgia, USA, and started its work officially from its head office in Washington in June 25, 1946 as the first institution of specialized economic organizations of the United Nations on a long-term lending operations of the objectives of reconstruction and economic development of developed and developing countries. In fact, has begun a small number of members of the organization were mostly from rich countries, but the accession countries has continued and in 1996 the number of members were about 172 countries and currently 184 countries.

There are no requirements that prevent the membership of any country that wants its membership in it. Perhaps, the most important requirement in its membership the country should has membership in the International Monetary Fund. Then, determine by member states of the subscription of capital, according to the share of each country in the IMF. The factor which governs the thinking of planners who designed both institutions is the specter of thirties' depression, And the consequent collapse of international trade and investment, or was the reason for this collapse as they thought. The main goal is to create a world within the forces of market-based competition to operate freely without government interference that hampered its work.

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(1) Abd al-Muttalib Abdul-Hamid, the new global economy and its future prospects after the 11 of September edition of an initial group of Arab Nile, 2003, p 94-95

It was intended from the WB in addition to this that the main function is to ensure private investment and transfer to remote areas will benefit to everyone.<sup>(1)</sup> Some staff of the government of the United States of America had set the basic design for the World Bank for reconstruction and development especially the "Harry Dek shatter hwaia", and assistant secretary of the treasury "Henry Morgenthau", and a limited assistant by the British economist "Lord Keynes", while the United States has dominated completely on the World Bank in time of its founding. As it was the only country survivor of destruction that hit the western countries because of World War II. Thus, the USA only has the ability to export and lending of money at that time, and at the time of its foundation reserves the 37% of the voting rights before this percentage reduced to 20 %.<sup>(2)</sup> The main office of the World Bank has been established in Washington, The charter provides that the *(bank's head office in the territory of a member country which has the largest number of shares)*.<sup>(3)</sup> Washington should has the main place of the Bank and Fund because they should be subject to close scrutiny by the national governments. In contrast to what was proposed by "Lord Keynes" at the time because he believed they should be administered as two independence founders away from national politics. The Bank has provided the first four loans, and all of them were received by governments' programs, and the process is unconditioned to support the balance of payments, intended to reconstruction of four European countries: France, Netherlands, Denmark, and Luxembourg.<sup>(4)</sup>

The first loan for a specific project was (a loan that has become the preferred form of the Bank). EL-Chile has presented in 1948, similar loans to Brazil and Mexico, When the Bank began its acceded to all of Czech Slovakia, Poland and has strong relation with the Soviet Union, at that time they are not benefit from this institution as the Soviet Union was and at that time the Soviet Union have not joined the International Monetary Fund and the World Bank. However, without its allies Soviet Union has benefited from the Marshall Plan, and program of state aid which has had a major role in financing to reconstruct processes in Europe. The United States has been pushing to depriving countries that were following the Soviet Union (allies) to take advantage of the World Bank during the period when "Maknymar" was the head of it. In that time it got high level of development in World Bank operations, when he got the greatest fame and thanks in that time because of the selection introduced by the Bank's performance and the most important funding and expense of the projects by the local currency. Also began to provide loans to education and attempted to increase the proportion of lending provided to the investment in agricultural land instead of loans for infrastructure as had prevailed before and he has received regulatory reforms introduced by the highly regarded and have had outstanding results should be added to his credit.

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(1) - Abd al-Muttalib Abdul Hamid, the new global economy and its future prospects after the 11 of September, source already mentioned, p. 95.

(2) - Jean Masate, what is the World Bank, Journal of financial studies cognitive, volume 3, No. 1.1995, p.

(3) Items of Agreement of the International Bank for Reconstruction and Development, item 5, paragraph 9, p. 31

(4)- Mohammed Seid Abed, International Trade, Press radiation, Alexandria, 2001, p. 410

The budget personnel affairs mean that applying the method of cost-effectiveness that have related to the development loans with the development has seen by the World Bank at the beginning of its inception. Especially in the period that "McNamara" was president there was negative damage to that period in addition to the related expansion in the volume of loans offered by the bank. Which insisted that the control and reduce the projects that have given those loans. When Kalwzen came which has a good background on the work of commercial banks (different to Maknymar). It was noted that Kalwzen stressed the imperative need for further expansion in lending. The role played can be changed based on political environment and economic around it, and despite all the observations made and which will be dealt in detail on the work of the World Bank, has remained the most important international economic institution that gives some privileges "conditional "For poor countries, as it tries to integrate its role with the role of the IMF. <sup>(1)</sup>

**Second;** The structure of the World Bank Group:

The most important role played by the World Bank, which was created for that was established rules of conduct for the international financial system regarding the movement of capital. Whether, in the form of foreign direct investment or long-term loans an attempt to increase the economic development and higher rates of economic growth, and treatment of structural imbalances, especially in developing countries that suffering from the fragility of the economic structures.

The role of the World Bank can be understood after more knowledge of the role of its constituted institutions:

1 - World Bank for Reconstruction and Development:

Range includes the international bank for reconstruction and development, which was created in 1946<sup>(2)</sup>, and the International Foundation Development founded in 1960 and the International Finance Corporation, which dates back to 1956, and all the discuss in this research by the World Bank intended activity of the international bank for reconstruction and development, and the institution international credit as both institutions have the same staff and follow the same guidelines in the policy and same procedures, that were identical in the assessment of projects, and treat with the governments of countries that enter into transactions with the World Bank, while the IFD has a different source of funds And other rules for countries that granted loans and it is essentially looks through its work as a legal framework only, or a separate account, and the WB for Reconstruction and Development provides loans on concessional terms, and its shares are owned both sides of 137 countries that have the right to vote commensurate with the contribution of each of them. If the World Bank needs some money it can get loan from the capital markets and central banks of member states.

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(1) Cheryl Pierre, World Bank Critical Study, translated by Mohamed Fouad, Cena Publishing, Cairo, edition 1.1994, p. 42

(2) Abd al-Muttalib Abdul Hamid, the new global economy and its future prospects after the 11 of September, source already mentioned, p. 101

It has become a confidant increasingly by International lending bodies, and the bank always transferred the loans from countries with surpluses in the balance of payments because lending from these countries was less cost. In the first decades after its founding the bank essentially banks "Dolria," because of the strength of the U.S. economy at the time, and its dominance on the international level, however, that the prosperity boom in European countries in the ensuing period, which coincided with some of the difficulties in the balance of payments of U.S.A , multiple and variety sources of lending, in the late of sixties, Germany was an essential source, and in the early of seventies Japan entered because of its economic has increased in that time. The bank has to resort from some countries that have oil exporters "OPEC."To return the United States economically in the first rank in the last two decades of the last century, and the bank became lending a large part from America money.<sup>(1)</sup> The international bank for reconstruction and development lends money in its role for most borrowers at more favorable than what is in the international financial markets. Although, the WB itself lending from these markets and multiple factors that contribute to this paradoxical situation is that the total shares of the Bank (member states) to not getting any interest or dividends on their contributions, and that the bank imposes on all its borrowers the same interest rate that it can change in different stages (four times a year), subject to determine the interest rate to calculate the average cost of lending with the addition of a margin of 0.5%.<sup>(2)</sup>

Another factor that helps to bear the difference in cost price, which is the Bank, can borrow by price that fit to it and the creditors have guarantee if it was required -of the capital that performance obliged to fulfill the obligations which the taxpayers will have to again bear and pay the deficit in debt in the financial markets. One of the factors, which also highlights the contrast in the interest rate, the interest rate is determined by the Bank is not as good as it should be, at least when compared to similar prices in the market dollar.

Summarized of the goals of the international bank for reconstruction and development :<sup>(3)</sup>

- A - Assistance in the development of territories of member states and increasing rates of economic growth.
- B - Overcome the structural differences that are characteristic of the economies of many developing countries.
- C - Work to balance the growth in the long term with regard to international trade.
- D - Encourage foreign investment through insurance or contribute to the loans.

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(1) Amir Salem, the World Bank and Human Right Systems, Center for Studies and Legal Information and Human Rights, Alexandria, 1992, p. 52

(2) Jack Azlak the World Bank and International Monetary Fund, the translated by Ahmad Muneeb, International Center Investment cultural, Cairo, edition 1.2001, p. 51

(3) Abd al-Muttalib Abdul Hamid, the new global economy and its future prospects after the 11 of September, source already mentioned, p. 96

## **2 - International Financial Foundation (IFF):**

IFF established in 1960 has played an important role in saving the WB to reduce its effectiveness, where the expectations of the future in 1960 is not bright because of high interest rates, which was lent by the WB, which called for the question about the difference between him and the other IFF.

The countries of the Western Europe and Australia have reached a degree of economic power, which reduced the effectiveness of the WB in by observers of the role which it was created for in this period affected by some developing countries such as India, Pakistan and Brazil, high interest rates which have doubled their debts to the bank in short periods, while the rich countries had done away with borrowing from it, hence the need to establish development to give back the WB superiority and its prestige. Also, it was created as a means to address the request of third world countries to find agency more radical to provide loans or grants under the auspices of the United Nations, that was motivation of resentment of the lending policies and was the first agency of the proposed loans are the United Nations special fund for economic development, but the management of the bank which was initially hostile to the idea of the existence and agency of loans, has backed away from that requirement and the WB began thinking about providing loans to be more convenience and in line with the conditions developing countries, and the international affiliation institution has legal status, which was under "an entity separate and distinct from the bank" Article 6, Section 6 - A) but merely a separate account managed by the Bank officials and staff, and funding the same pattern of Bank-financed projects, but the membership conditional on membership in the bank, almost all funds come of the member governments category initial capital-exporting), with a small percentage of the aid provided by the international bank for reconstruction and development of the profits retained that are not distributed among other shares.

So, the institution get their money directly and indirectly motivated taxes in the member countries and affiliations of the institution was in terms of nominal loans must be repaid. The most important feature of this institution that they did not need the guarantees of the government and main objectives: <sup>(1)</sup>

A - Giving a boost to economic development in poor countries

B - Loans for infrastructure projects.

## **3- International Finance Corporations (IFC):**

Established this organization due to the need for flexible management used by the Bank and provide lending to the private sector to stimulate growth and in support of special projects and financial markets, where the provision of materials and the required technical and administrative capacity for existing projects or updated.

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(1) Cheryl Pierre, World Bank, Critical Study, source already mentioned, p. -88-89

The International Commission for the financing not asking for any guarantees from the government because their services and limited assistance to poor countries. Where, it was running by function, device, and the administrator in coordination with the department of the bank. <sup>(1)</sup>

Which is associated with a range of conditions the most important administrative capacity and the most prominent goals: <sup>(2)</sup>

A - Contribute to create the investment opportunities.

B - Encouraging private investments productivity.

C -Participate the private sector and deal with it without guarantees from governments affiliated to it.

#### **4- Agency for International Development (AID):**

One of the factors that driving to establish the AID was the desire to add the flexibility of the banking system in developing countries, and through local institutions to grant loans to investors and therefore at low interest rates. In addition, to that there is an economic factor that helped the agency, and a rise the outcome and economic returns that was expected from the investment projects established in developing countries. Which encouraged investors to get more loans from developing countries, but the problem that faced the WB to provide loans was that the future financial capacity of many developing countries are insufficient to repay the loans. Because the large volume of foreign loans to developing countries and the role of the political factor to establish the AID. Which lead to criticize of the many to the WB management regarding policies and interventions in the affairs of the developing countries. The attention of the WB in the reconstruction Western Europe and Japan during the first decade was greater than his interest in developing countries. A result of all these factors created the AID in 1960, as one of the foundation of the WB and work starting in the same year.

The goals can be determining for the AID as follows :<sup>(3)</sup>

1 - Financing of projects by providing loans on concessional terms, and more appropriate for developing countries, where loans are granted for long periods of time up to 50 years, including a grace period of ten years, in addition to the possibility of repayment of loans in local currencies, do not impose interest on loans, but calculated by an administrative fee of the total value of the loan.

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(1) Mazen Abdel-Salam Adham, economic relations and international monetary systems, Academic Publishing Center, Tripoli, 2007, p. 97.

(2) Abd al-Muttalib Abdul-Hamid, the new global economic system, source already mentioned p. 91

(3) Maitem Saheb Ajam, International Finance, Zahran Publishing Center, Amman Jordan, 2008, p. 269-270-271

2 - The loans give to poor developing countries and least-affected of the developing countries. Also, classified the developing countries based on the average annual of per capita income which is the measure or criterion for the granting of loans and aid to developing countries by the institution.

3 - different to the WB and IFF that the AID grant long term loans to finance economic restructure projects in developing countries, in order to increase public benefits.

4 - Facilitate and simplify the problems related to public debt service by directing attention to the social benefits of investment compared to economic return. Also, it interests in investments for economic returns in long-term more than investments for economic returns in short-term.

**Third;** functions and tasks of the World Bank Group:

WB Group was established to respond to meet the goals and play the following roles: <sup>(1)</sup>

1\_ Help the developing countries by making the per capita income of these countries at least 1305 dollars annually.

2\_ Stimulate the private sector in developing countries.

3\_ Facilitate the provision of long term international finance to development projects and programs for most of the countries that have economic fragility.

4\_ Provide the advice and technical assistance to member states, in order to help them approach to solving the economic problems.

5\_ Settlement of large projects to the strengthen infrastructure development, like generating electricity station, dams, roads and railways.

6\_ Activate the role of the economic feasibility study for projects and reform the economic structure in which they operate projects.

7\_ In recent years, the WB has increased his attention to issues such as AIDS and care for the environment.

**Fourth;** the financial resources of the World Bank:

The subscribed capital considered the main financial resource of the WB and it has been known to increase the subscribed capital between these two periods 1959-1993, and it rising from \$ 21 billion in the first period to \$ 24 billion in the second period and arrived in 1993 to \$ 170 billion that paid only 10 % from it, while the remaining shareholders can be ordered from them if there is a need to it, and the nominal capital of the Bank in 1996 amounted to \$ 184 billion.

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(1) Abd al-Muttalib Abdul-Hamid, the new global economic system, source already mentioned p. 97

And from another sources approved by the WB to finance its borrowing from international financial market through bonds. Also, the net profits as a result of the Bank's operations are considered a reliable source to funding the World Bank.

**Fifth;** the quota and voting power:

As for the quota owned by the WB we note that it is limited to a few countries such as the United States, Japan, Germany, Britain and France, these five countries \_ for example \_ holds about 43% of the shares of the Bank, which made all the decisions taken by the WB Group under the their disposal and subject to them, because of their voting power, which amounted to 44% of the total votes, which is reflected direct on the political within the bank, and highlights the role of the United States, which own about 20% of those voting, as it imposes its control on the appointment of staff. <sup>(1)</sup>

**Sixth;** Organizational Structure of the World Bank:

There are three foundations supervise the regulation of business in the World Bank ;<sup>(2)</sup>

1 - Board of Governors: BG consists of a group of governors and their deputies, who represent their countries members of the WB. While this council meets once a year to draw his policies and conduct of affairs of the bank as the council may be represented by directors in a part or all of the bank affairs.

2 - Board of Directors: It is an executive board implements the decisions of the BG,, also composed the BD from (14) members, and they are elected by the BG for 5 years including five members representing the largest contribution countries to the bank.

3 - Board of Administration: This council contains the group of experts in the field of banking management. Also, the members of this administration formed by the BD and directly supervise them by the governor of the WB.

**Seventh;** The lending policy of the World Bank:

The lending policy of the WB to grant loans medium and long-term, WB loans are given a grace period of five years and recovered during (15-20) years and at this time it gives loans till the average of per capita income reaches a limited level. <sup>(3)</sup>

**A - Types of loans offered by the World Bank:**

The long-term loans are the basis of policy borrowing of the WB, which holds the developing countries in particular, and the greatest interest in providing like these loans after the developed countries had benefited from those loans before, and the common denominator of the types of the WB loans are given a grace period of five years and recovered during (15-20) years.

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(1) Zaki Alaedi, The Secret History of the World Bank, translated by students for publication, Cairo, edition 1, 1990, p. 81. 86

(2) Ali Abdel Fattah Abusrcar, Internatioal Economic theories and policies, Alssira for publication, distribution, and printing, Jordan, the first edition, 2007, p. 511

(3)Adel Ahmed Hashish, International Economic Relations, the Center of new University Publishing, 2000, p. 176

This type of loans enjoyed in developing countries at this time based on certain extent of the per capita income, and when they exceed this limit (1305) dollars it became the right of the WB to provide loans without the need to ensure that governments. The private sector has benefited from World Bank loans these borrowings by the Bank, whether simple or normal commercial terms they are to set up projects in its part about three-quarters of the ones, and the other quarter reform programs with the financing structure. <sup>(1)</sup>

The types of loans that WB granted can be invest as follows:

#### 1\_ Loan Projects:

The most common projects are irrigation, sanitation, methods of generating electricity projects. All of these projects have strong relation with infrastructure, and these loans often directed to poor countries that have weak structure.

#### 2\_ Loans Programs:

Here it comes to development programs and sometimes they resorted to it if the national currency have not affected, or there is worry on the balance of payments of the country, usually used to finance imports of materials and capital goods needed for a particular industry, the key advantage of loan programs is that they are not given except in circumstances exceptional, and its ratio compared to the rest of the WB loans do not exceed 10% of the group of those loans in the bank.

#### 3\_ Loans of the structural corrections:

Where the warrant was issued by the WB in May 1980 meant to clarify the criteria to take advantage of these loans and follow that in two conditions. First, need for a serious disruption in the BoP so that a country cannot afford by itself without outside interference. Second, condition is the government's response is not conditional to the implementation of programs assigned by the WB, which is a program of structural reform that usually extends certain period of time.

The loans are characterized as structural corrections to a high degree of conditionality, these conditions fall into four major groups as following: <sup>(2)</sup>

A \_ Efficient use of resources for the beneficiary country.

B \_ Shifts to privacy gradually and monitor the policies balance issues.

C \_ Liberation of the foreign trade and reducing tariffs.

D \_ Reform of the tariff, tax system and public administration.

These conditions are that reduced the share of developing countries and make them focus on other types of loans that have low level of conditions.

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(1) Abd al-Muttalib Abdul-Hamid, the new global economic system, source already mentioned p. 99

(2) Zaki Alaedi, The Secret History of the World Bank, translated by students for publication, Cairo, edition 1, 1990, p. 89-90

#### 4\_ Sectorial loans:

As a result of the reluctance of countries for loans corrections structural because of conditionality emerged adopted a new type of loan is called loan sector, which is not given to fund a particular project ( such as the case of loans corrections, structural), but focus on the reform with regard to economic policy applied in the borrowing country. the difference between them and loans structural corrections that it is used for a private sector-specific policies related to be determined as specifically directed to agriculture, industry, or power.....Also, it is not without conditions.

#### **B - Stages of project financing by the World Bank:**

There are several stages of going through the financing of projects. The WB ensure the feasibility of these projects and their usefulness to the country concerned, as well as guarantee the money back to the bank, therefore, these stages are: <sup>(1)</sup>

##### 1\_ Stage of project test:

Here it comes to careful consideration by the borrowed country, and knowledge of those projects that the contribution of the WB will return the benefit to it. Then, apply to the president of the WB describes the objectives of the project and ask him to approve the funding. After that, the WB sends a mission conducted for a field study of the project to ensure the economic feasibility, and ask each designated countries of accurate data for the study and evaluation.

##### 2\_ Stage of project preparation:

Prepare the detailed feasibility study for the project that was chosen, with an indication that the bank does not examine the EF of the projects, which are usually already have been done by specialized expertise.

##### 3\_ Stage of analysis and evaluation of project:

In analysis of the EF of the project the experts in the WB calculates the return on the project, and know what is return from this project during his time period, and this return is called a rate of return which compares to interest rate of the borrowing project with the interest rate on the market. This return value has directly positive related with merit funding when the return get increase that leads the bank to fund this project and vice versa.

##### 4\_ stage of implementation and supervision:

After all the previous stages and the WB make sure that the project will be successful, the WB will send missions to implementing the project and monitored at each stage. Usually, the time period vary from one project to another, but likely it is a maximum of five years. After the work on this project done the bank has further study which called "*completion report*" that is identified on the success and failure points during the implementation of the project and compared the result with what was expected from the feasibility studies.

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(1) Abd al-Muttalib Abdul-Hamid, the new global economic system, source already mentioned p. 101

## **Eight;** The World Bank and its relation to the International Monetary Fund:

### 1 - About the International Monetary Fund:

#### A - Establishment of the IMF:

IMF established in "Bretton Woods' agreement" in 1944, before the WB has established. it began in 1945 and its main office was in Washington and it run by its members that include all the countries of the world, almost 184 member states and the IMF consider as central institution system, which is consider as system of the international payments and currency exchange rates that allows commercial transactions between different countries.

#### B - Functions of the International Monetary Fund:

The IMF plays an important role in the global economy and reviewed the financial and economic developments of the international by members. Then, provide advice to the countries concerned.

Also, the IMF lend to members in hard currency to support their policy and reform in the context of addressing the problems in BoP, and encourage sustainable growth, as well as the Fund provides a wide range of technical assistance of gaining experience in economic management and provide training for those workers in governments. In addition to submit advice on monetary policy and supervision of the world and control the exact exchange rate policies in member countries.

#### C - Terms of membership of the Fund:

When any country want to be membership in the IMF, the board of executive directors start discussed the request and then transmit it directly to the board of governors, with the recommendation of acceptance (acceptance of membership), and include that quota subscription in the Fund and how the form of payments to participate in membership and some formulas and the conditions required for eligibility. After the approval of the board of governors to grant membership to the country that it has to apply for legal procedures required by its domestic laws to be able to sign the Fund Convention and the completion of its obligations towards IMF. Therefore the member state can be withdrawn from the Fund at any time. <sup>(1)</sup>

#### D - Sources of funds of the IMF:

IPO: after IPO shares in the largest source of financing for the Fund. The results of the member states can be allowed to get multiple borrow of the shares that it paid, so the fund needs another source for borrowing: - <sup>(2)</sup>

1 - General formulations for borrowing: since 1967 the fund received authorization to open a credit with some countries subject to renewal every five years by 25 million U.S. dollars, the Fund pays interest on withdrawn and undertakes to pay the loans over five years.

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(1) Mohammed Seid Abed, International Trade, source already mentioned, p. 113-114

(2) Irfan Hussain Taqi, International Finance, Majdalawi Publishing Center, Amman, 1999, p. 290-291

2 - Borrow from member governments: this can be done for funding programs of benefit members especially in poor countries as a loan in easy terms. Usually it has the right to withdraw immediately 25% of the share paid in gold or convertible currencies. Also, it may request more loans in cases of insufficient initial withdrawals till total loans reach three times of the share of payments that member pledged to solve all the problems in the BoP. The payment should be done in the period of 3-5 years and sometimes up to 10 years.

## 2 - Differences between the IMF and WB:

In 1944 of the last century the independent countries at that time try to create a specialized economic units, means to monitor the global economy, and prevent to happen economic recession like in the thirties of the last century. The goal for create these two institutions ((Bretton Woods)) was to promote global economy and giving him a new push of the co-ordination between all economic actors at the time. The western countries in that time were devastating due to World War II, which has burdened the BoP and leave them on the brink of bankruptcy. Some analysts believe that the establishment of these two economic institutions even they were in the same period of time the result was the integration of roles between them.

The WB institutions has specific goal which it was created to help developing countries through provision aid in the long term, as well as advice to integrate the economies of these countries in the global economy. These become known as the economic system of the new world. The main goal was to relieve poverty especially in developing countries that has been interesting in the WB. The WB has focused on developing countries after the developed countries reach high level of growth. The IMF is an observer of the world's currencies and seeks to create monetary system stability in international trade. The Fund also provides some loans to member countries that may face a risk which cause effect to the BoP. <sup>(1)</sup>

The IMF loans spend in its entirety for each safe that will contribute to the stability of the currency world. the WB loans are directed to the financing of economic projects that have related to infrastructure (roads, energy, health and education) in addition to contribute in supporting the economic policies in specific countries, and provide advice and keep up with these projects. The IMF gives its attention only to monetary and economic policy, and provides loans to member countries that have problem with short term loans meeting the requirements of the payments of foreign Fund. Also, it is trying to get the convertibility certain clients of its member countries within the flexible exchange rates since 1973, and the basic characteristic of the loans provided by the IMF that it is a short-term and trying to solve a specific problem related to the monetary system of the country.

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(1) Jean Masate, what is the World Bank, Journal of financial studies cognitive, source already mentioned, p.12-13.

While the WB has long-term loans and involved in many areas to serve the economic development. As a result of these vast areas that constitutes an arena of international trade and investment. Each country should retain various international currency that will help them to purchase their need from the global market (financing of imports and exports) and here are concentrated the main task assigned to the IMF is monitoring all these currencies and its mediator at the same time in order to maintain the flexibility and stability of the global monetary system. Recently, the bank was moving towards the provision of loans contribute to general improvements in economic policies, and other loans are seeking to improve the areas of development and seeks to direct resources to investments more effectively to reduce the budget deficit or to curb inflation which lead to improve public institutions. These two institutions made significant progress after their agreement to reduce the debt of poor countries that have caused a lot of problems for attempts to promote its economy. Also, they have been launched to reduce the debt of these countries in 1996 and in the framework of this approach each organization works in its area of comparative advantage: where the IMF is responsible for dialogue with country that has response on macroeconomic policy, while the WB is responsible for social and structural issues. <sup>(1)</sup>

### 3 - Cooperation between the Bank and the Fund:

The external debt crisis that has emerged since the beginning of the eighties of the last century was a subject of discussion regarding the ongoing controversy about the role that can be played by both the IMF and WB. The IMF should have rescheduled the external debt of poor countries in order to promote them to face defect in the BoP.

This requires to follow the monetary and financial policies and also in order to achieve aggregate demand and its suitability with aggregate supply. These works require the concerned countries to work to reduce the government spending in its different forms (consumption and investment). <sup>(2)</sup> In August 2001, the board of directors of the WB and IMF to promote collaboration on country programs and conditionality means that coordination between these two institutions during the implementation period of the program through early collaboration. Clearly, to determine their responsibility by designate the lead agency in the implementation. Also, move its reporting to high level in these two institutions. Although, on this coordination each institution remains it's responsible for its own lending decisions, and its policy in relation to province of its resources. Under this framework of the work they have done to develop a strategy to reduce poverty in the poorest countries which supported by the system of poverty alleviation and growth in the IMF.

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(1) Ibtisam Saleh Abdulhafez, , the role of the IMF and the World Bank to face of economic crisis, unpublished Master Thesis, Academy of Graduate Studies, Tripoli, p. 55.

(2) Amir Salem, the World Bank and Human Right Systems, source already mentioned p. 52

It is expected that the Bank is working with the Fund in coordination between them to reach a strategic joint country means each institution has responsible to achieve a degree of flexibility and to deal positively with the conditions of these poor countries. Whatever the similarities and differences in these two institutions, the common denominator so far is that one of these institutions unable to provide real and positive results add to its credit. <sup>(1)</sup>

There is no doubt that it has related and direct impact on government funding of some projects that handled by the bank in partner with those governments which provides the funds to implement these projects. While the government response to provide local currency in order to cooperate and complement of roles between the IMF and the WB for example:

The task of the World Bank is funding long term projects such as ports, roads, drinking water and agriculture for export of cotton. The BoP of the country that exports the cotton may not be served in a trade with any other part if the production volume of cotton does not give the changes in the ER. The IMF will not attempt to establish a system of stable ER in this country because of the high cost of resources of the Fund.

It may be overlap between the roles of the IMF and WB in terms of long term growth and financial stability, and it is necessary to think in a combination between them to cooperate and serve the concerned country. Though there are many difficulties still encountered due to the inefficient use of resources on the long term and in an attempt to highlight the cooperation between these two institutions. The World Bank has increased of loans to be provided and include restructuring the economy and sectorial reform because of the eighties recession. In addition, it had effort to achieve a kind of continuous development. The Latin American and Africa countries have benefited from this new approach to the WB in terms of the volume of loans and this group is most debts in the world. <sup>(2)</sup>

In the other direction were the results of the oil crisis in the seventies and a recession that followed by a critical role in making the IMF to change the time period of the loans provided to eight years. Then, it stipulated that beneficiary country should make report about its advocating policy, and this can be done by meeting of the experts in the IMF, the WB and the beneficiary country after that they prepare the reports and studies that contain short and long term loans.

In this implicit recognition of the Fund to the defect in the BoP is not related to short term only, but may have other reasons, which requires cooperating with the WB experts because they have experience about long-term development and their knowledge of the causes of the fragility of economic in developing countries.

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(1) Ibtisam Saleh Abdulhafez, , the role of the IMF and the World Bank to face of economic crisis, source already mentioned p. 56.

(2) Amir Salem, the World Bank and Human Right Systems, source already mentioned p. 93

On their part, the World Bank's experts benefit from their theory in Fund with respect to financial stability in the short term and its role in increasing the economy's ability to fulfill the foreign obligations. Then, help the economies of poor countries to integrate with the GE, and this convergence in the roles of the WB and IMF back (Dual requirements, as it imperative for the developing countries as the IMF is required of countries that request his help to provide him approval from the bank. On other side, the bank asks the concerned country to get prior agreement with fund.

This dual conditionality even if these international institutions are close to the interest of the beneficiary country and it may impede the procedures and spend long time that these poor countries be unable to confront the difficult economic situation. In addition, that most of the private financial institutions, do not take any decision to assistance to any country before it's prove to fulfill the obligation with international institutions.

## **Part two: Common characteristics of developing countries:**

There are several names to third world countries, but the most famous name that has prevailed in the region of the UN is the developing countries. Although, there are many of them did not reach the level of growth according to the definitions of economists (country that has low level of living or low average of real capita income compared to a certain level of income in developed countries).<sup>(1)</sup>

The characteristics of developing countries can be classified to properties of internal, economic, demographic, and business.

**First;** characteristics of Interior:

The national income of developing countries in terms of average per capita and growth rates as well as a way to distribute it among the members of the community, and can clarify the properties of Interior in the following points:

1- Decline in average per capita in real national income:

The International Foundation uses the average per capita of national income as an indicator or measure of the degree of progress or backwardness of the developing countries. The WB has divided these countries into groups based on the average per capita of national income. there are three groups of countries, low-income countries and their average per capita income do not exceed 596 dollars a year, middle-income countries and their average per capita income is from 597 dollars to 8626 dollars a year, and high-income countries and their average per capita income is more than 8626 dollars a year. And enjoy 25% of the world's population by about 80% of the total world income while distributing 20% of the total world income on the three-quarters of the world's population means that about 75% of the world's population lives in a state of underdevelopment. And use the average per capita of real national income as a pathway for living standards for underdeveloped countries. The average per capita of real income shows the amount of commodities and services which he or she can obtained by individual cash income.<sup>(2)</sup>

2 - Poor distribution of national income:

Poor distribution of income means that there is a small group in the community acquires the largest part of the income distribution, while distribute the rest of the income on the largest number in this community. That means that there is a large gap between the incomes of the rich and the poor in the same society. The most of the countries in the world contain regulations on the degree of inequality. Also, it is not clear that there is a clear correlation between income levels in different countries and poor income distribution.

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(1) Omar Mohammed Al Mahmoudi, Theories in International Economic Relations, the Libyan Publishing Center, Benghazi, edition 1.1986, p. 239.

(2) Mohammed Abdulaziz Ajamieh, Iman Attia Nassef, economic development "theory and , practical studies," University Publishing Center, 2006, p. 14-15

For example, if we compare the share of poorest 40% of the world population share with the richest 20% of the WP as a measure of inequality in income distribution, we find that countries such as Brazil, Ecuador, Peru and Mexico have a high degree of inequality in income distribution and other countries such as India, Tanzania, France and Germany with an acceptable degree of inequality. As other countries such as Taiwan and the United States have low degree of inequality.

To confirm the above that most of the world has the degree of inequality. But this phenomenon is more obvious in developing countries where the distribution of income in these countries for the benefit of the rich classes. <sup>(1)</sup>

### **Second; Economic Characteristics:**

The economic characteristics are summarized as follows:

1 - The dominance of the agricultural sector on the economies of developing countries and the weakness of manufacturing:

The issue of agriculture occupies a key place among the range of issues that hinder the economic development process. The agricultural sector is dominant on the national economy that the economic literature calls these countries, agricultural countries of the underdeveloped status, because they use methods and means primitive. In addition, the majorities of the workforce in these countries work in agriculture with low wages and suffer from the problem of accumulation, market expansion, illiteracy and lack of technical personnel. Where we found about two thirds of the workforce in developing countries in Africa, Asia and Latin America are used in agriculture. While less than 4% of the U.S. workforces used in the agricultural sector. <sup>(2)</sup> The primary reason for concentrated of the workforce in the agricultural sector in developing countries, due to the preference in the income levels is the provision of basic needs such as food. <sup>(3)</sup> The many economists say that increase reliance on agricultural activity with low incomes is always to satisfy the basic needs of food and clothing. In the low-income countries is a demand for food is about half of total demand in the community and the larger remainder of the income directed towards housing, clothing and various services.

Not only rely on the agricultural sector, but the problem lies in the unique characteristics of the agricultural sector in developing countries, including: <sup>(4)</sup>

A - The prevalence of small agricultural property which called self-sufficient. Due to lack of availability of agricultural land and a large increase of population in the rural that leads to an increase in employment on the same piece of land and cause to increase the unemployment.

B - Dependence on agriculture production methods of traditional and primitive tools.

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(1) Mohammed Abdulaziz Ajamieh, Iman Attia Nassef, economic development "theory and , practical studies," source already mentioned, p. 18-19

(2) Mohamed Fadel Mohamed Aziz Kaftan, economic development, Alhwadth Press, Baghdad, edition 1.1984, p. 120.

(3) Mohammad Saleh Turki Al-quraishi, Salim Tawfiq Al-najafi, Introduction to Development Economics, Book Publishing Center, Iraq, edition 1.1988, p. 21.

(4) Mohammed Abdulaziz Ajamieh, Iman Attia Nassef, economic development "theory and , practical studies," source already mentioned, p. 21-22

C - Reluctance of farmers to apply the results of scientific research to develop their production. The most of these methods require potential financial and organizational capabilities that are not available to small farmers. In some cases these methods need to certain natural conditions are not available in many developing countries.

There is economic underdevelopment linked to the industrial sector resulting in weakness in manufacturing due to the long colonial domination in developing countries. The average annual growth of industrial production is 4 to 5% and population growth is 5 to 7%. In many developing countries the industry is still weak and slow development in both its extractive and transformative industries except some advanced industry such as oil and precious metals that is necessary for industry. Therefore, underdeveloped countries could not secure the needs of essential commodities. The domestic production provides only 30% of the country's needs and often this ratio of production comes from foreign investment and the rest is imported from advanced capitalist countries. <sup>(1)</sup>

#### 2- Low level of productivity:

The developing countries have general characterize in disproportion of the presentation the factors of production. The majority of them suffer from lack of factors of production that complementary to the work element in the production process such as capital, management expertise, regulatory, agricultural land and other services. In addition, the decline the level of worker health, inadequate food, and low level of education and training of the work element all these factors contribute inability of the worker to exert the effort required in the production process, which contributes significantly to low productivity. <sup>(2)</sup>

In developing countries we find the level of labor productivity which is quantity of production divided by the amount of work and dangerously low compared with the levels of labor productivity in developed countries. This phenomenon can be illustrated by some of the ideas of basic economic which states to increase amounts of the variable element of the work with the quantities of other production. That led to point when the marginal production of variable element will start decreasing. Therefore, the absence of a complementary element to work such as capital and others leads to low productivity then low productivity means low level of national income. <sup>(3)</sup>

#### 3 - Low savings rates:

Developing countries are characterized in the low level of savings given the rate of savings as a percentage of GDP, where we find the savings is 7% of gross GDP in developing countries compared with 24% in developed countries. <sup>(4)</sup>

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(1) Talal Pope, The Issue of Development and Underdevelopment in the Third World, the Alitalia Publishing Center, Beirut, edition 3.1986, p. 43.

(2) Mohammed Abdulaziz Ajamieh, Iman Attia Nassef, Economic Development "theory and , practical studies," source already mentioned, p. 23

(3) Mohammad Saleh Turki Al-quraishi, Salim Tawfiq Al-najafi, Introduction to Development Economics, source already mentioned p. 20.

(4) Mohammed Abdulaziz Ajamieh, Iman Attia Nassef, Economic Development "theory and , practical studies," source already mentioned, p. 22

Therefore, one of the problems that these foundation faced in developing countries is the lack of enough money to finance projects that they want to set up, where they cannot find who wants to lend them to create these projects due to the low per capita income in these countries that developing countries spend their income on consumer goods and necessary services which lead in a lack of saving in developing countries. <sup>(1)</sup> The consequent of low level of savings in developing countries reduced the money transferred for investment. The saving that achieved in these countries might not only compensate the consumer of the capital within production processes which lead to a lack of new additions to invest in developing countries. <sup>(2)</sup>

#### 4 - Lack of incentive to invest:

Often, one of obstacles to development in developing countries is the weakness of investment due to the low level of per capita income so as not to provide only narrow markets and they do not allow establishing of minimum sizes for new projects. So, the weakness of the incentive to invest due to the weak purchasing power of individuals and low level of real income. Of course, low level of productivity caused by limited amount of capital used in production which leads to poor investment. <sup>(3)</sup>

#### 5 - Inadequate infrastructure or economic master of the least developed countries:

The developing countries characterized by inadequate in infrastructure or economic master which include education, health care, transportation and other services. Usually, they established from the governments and these infrastructures are very important because they affect indirectly in the production processes. That reduced production which we have referred and it can be treated with this productivity when the workers get education and health so that they can continue to work longer to achieve higher productivity. The reason that caused the lack of provision of infrastructure is that most of the resources in developing countries specialization for the processing and provision of basic necessities of food, clothing and housing. <sup>(4)</sup>

#### **Third;** Commercial characteristics:

These characteristics related with foreign trade for gross domestic product and the structure of exports and its trends. Therefore, foreign trade as a share of GDP in rich and poor countries and noted that the difference between these two groups of countries is not due to only the difference in the level of income, but also due to the difference in the number of the population. The export proceeds are important source for foreign currency in most developing countries. The foreign trade varies in terms of quality of exported goods and its trends among developing countries and developed countries.

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(1) Mohammed Abdulaziz Ajamieh , Mohammed Ali Laithi, Economic Development, University Youth Foundation, Alexandria, 1996, p. 105

(2) Mohammed Abdulaziz Ajamieh, Iman Attia Nassef, Economic Development "theory and , practical studies," source already mentioned, p. 23

(3) Mohammed Abdulaziz Ajamieh , Mohammed Ali Laithi, Economic Development, source already mentioned,p. 110

(4) Mohammad Saleh Turki Al-quraishi, Salim Tawfiq Al-najafi, Introduction to Development Economics, source already mentioned p. 23.

The composition of export commodities in developing countries concentrated on a limited number of primary commodities where the half of developing countries get more than 50% of its export earnings from one primary commodity such as coffee, cocoa, and about three-quarters of developing countries get 60% from proceeds of exports of the three essential commodities. The oil is only export in most oil-producing countries such as Saudi Arabia, Kuwait and Libya. <sup>(1)</sup> Also, there is geographical distribution of exports in developing countries, where these exports are characterized by focusing geographical. The large part of exports move to developing countries due to the old colonial relation that made these countries a major source for the materials needed in the manufacturing process in developed countries.

In addition, the developing countries' exports of materials such as raw materials, metals, crude oil represents about 47% of its exports and 27% of its imports while the exports of developed countries of materials is 20% from its total exports and 30% from its total imports. The developing countries have about 45% of world exports of raw materials and only 17% of manufactured commodities. This is a major obstacle for developing countries because the prices of raw materials are characterized in instability due to the low elasticity of demand and supply. <sup>(2)</sup>

#### **Fourth;** Demographic characteristics:

These are properties in conditions of population in the developing world countries and increase the proportion of unskilled labor.

##### 1 - High rates of population growth:

The rate of PG in third world countries is 2.5% compared with the rate of PG in developed countries which amounted to 1% per year. The most important rate of PG in developing countries is that children who under 15 years they are almost half of the total population in those countries. The high rates of PG affect the standard of living in developing countries, especially when the PG rates greater than the growth rates of GDP for these countries. <sup>(3)</sup> If we consider the PG as a source of productive labor forces, but the problem of these economies are unable to achieve the same rate of PG. At the same time achieve high growth rates and development due to weak of institutions, poor productivity, and it is unable to get more of the workforce. <sup>(4)</sup>

##### 2 - Increasing the proportion of non-skilled labor:

The consequence in low Educators rate and nature of the structure of production in developing countries are increasing the proportion of unskilled labor. In 1960 the proportion of skilled labor and total labor forces about 12% in developing countries that low-income versus 21% in middle-income developing countries and 31% in high-income countries.

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(1) Mohammed Abdulaziz Ajamieh, Iman Attia Nassef, Economic Development "theory and , practical studies," source already mentioned, p. 32-33

(2) Mohammed Abdulaziz Ajamieh, Iman Attia Nassef, Economic Development "theory and , practical studies," source already mentioned, p. 35

(3) Mohammad Saleh Turki Al-quraishi, Salim Tawfiq Al-najafi, Introduction to Development Economics, source already mentioned p. 21.

(4) Mohamed Fadel Mohamed Aziz Kaftan, economic development, source already mentioned p. 155.

The increase in development processes to change the structure of the labor force during the period (1960-1980) the proportion of skilled labor has increased in developing countries to more than one third of the workforce which lead to increase the development in developing countries and increase the size of the middle class of businessmen and change the social structure. <sup>(1)</sup> Draw from the above that developing countries have characteristics that are different from developed countries and what is pushed developing countries to resort to the WB. In order to improve the standard of living and alleviate poverty, despite the main goal of establishment of the WB for reconstruction and development is to promote the global economy and help the Western countries that came out from World War II. Then, help developing countries to improve living standards and alleviate poverty and promote economic development. In fact, the WB has been established more than 50 years, but noted that the WB serves the interests of developed countries. Therefore, the developing countries still suffer from poverty, underdevelopment economic.

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(1) Mohammed Abdulaziz Ajamieh, Iman Attia Nassef, Economic Development "theory and , practical studies," source already mentioned, p. 38

## **Chapter Two**

**The role of external financing in the process of economic development programs and World Bank lending to developing countries**

## **Part one: The role of external financing in the economic development processes and its burdens**

**First;** The meaning of finance:

The finance has two meaning... real and monetary meaning, real meaning of the finance intended to provide real resources for development and the meaning of real resources of those goods, resources and services needed to build productive capacities. The monetary meaning of the finance is intended by the cash resources that are under the provision of real resources and directed to new capital formation.

(1) On the other hand, the finance means the attempt to control the composition of GDP between the production of consumer goods and capital goods production which mean when the production of investment goods increase lead to increase the value of capital formation and improve of the productive capacities and achieve an increase in GDP. (2)

In fact, the meaning of finance: is this aspect of international economic relations that is provision of associated movement of capital internationally.

**Second;** The importance of finance:

The importance of finance come from the need for money with increasing need for goods, services and trade which lead the finance to be more important. Whether these processes are the nature of progress or nature of a seasonal or were a strategic with long-term projects, which concerns the presence in the economic competition. In addition, the importance of finance has related with establishing the economic projects whatever the strategy used in the development must have adequate finance to provide timely and up to succeed. (3)

The importance of international finance can be classified to several categories: (4)

1 - Accounting resulting from the trade in both its exports and imports of commodities and services between different countries.

2 - International flows of capital in its various forms, such as loans and investments.

3 - The financial obligations of states on the resulted of the political situation prevailing in the world, such as financial compensation when there is a certain war.

**Third;** The need of developing countries for external financing:

The insufficient of local resources cannot meet the needs of investment for development in developing countries that because of the large gap of savings. They resort to obtaining funding from external sources. In 1988 the total of investment in developing countries that have low income is 18% of GDP while the savings amounted only 14%. So, the developing countries that have middle-income got the difference from the external funding sources. Therefore, developing countries need to get foreign loans to finance their development programs, and the reason for the gap between the low rate of domestic saving and the rate of investment required as well as symmetry in the gap of foreign trade.

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(1) Mohammed Abdulaziz Ajamieh and others, notes in the Development and Planning, Al-Arab renaissance of the Printing and Publishing Center, Beirut, 1984, p. 103

(2) Issam Khoury and others, Economic Development, Damascus University Publications, 1995, p. 330

(3) Kmanju Kmanju Abboud and others, financial management, curriculum House for Publishing and Distribution, Amman, M 1.1997, p. 44-43.

(4) Irfan Taqi Hassan, International Finance, source already mentioned, p.145

When the difference between the FE earnings of exports goods and services is during a specified period less than the value of imports during this period the difference must be blocked by additional external funding. It can block the gap between domestic saving rate and high rate of investment through the mobilization of the economic surplus in the various sectors of national economy which is in possession of some sectors. By this way, it can convert potential savings to real savings. Also, it can solve this conflict through external financing to block the gap between domestic resources for investment and it is the easiest way that almost of developing countries uses to block the gap of local resources which expose them to the external debt crisis. <sup>(1)</sup>

**Fourth;** The finance resource of development:

The financial sources are divided into local funding sources and external funding sources:

**1 - Local funding sources:**

Local funding means funding a group that can be provided from domestic sources, which are directed to the investments and the formation of new capacity in all sectors and economic areas. The financing of development plans does not depend on local resources only, but it uses external funding as well. However, the major burden of financing development projects should be done by local sources, because the foreign resources are not guaranteed for long periods.

The provision of domestic resources for financing in any country means savings these resources and not consumed them during the production period. So, the savings are equal to the size of those local resources that are not consumed by the real per capita incomes in a given period. Whether optional savings from the individuals themselves or impose on them from their incomes in various ways by the specialized authorities in the state. If we looked at developing countries especially countries that have dense population and compared them with developed countries, clearly they have low per capita income and a high average tendency of consumption thus reducing the average tendency of savings, but the consumption got the large part in any increase in income. The internal sources funding have different types such as savings of the household and business sector, whether the private, public sector and savings of the government sector. <sup>(2)</sup>

**A - Savings of the household sector:**

This sector is work for families, personals and private institutions. Usually, it is measured by the volume of savings to this sector and different between the total income that can be disposed and private spending on consumption. The disposable income is equal to national income minus all legal deductions such as retained earnings in corporations, corporation's income taxes and taxes on the per capita income.

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(1) Mohammed Abdul Aziz Mohammed, The Finance role to the IMF and the World Bank, Al-Fikr University Center, Alexandria, 2006, p. 24-23.

(2) Maytham Saheb Ajam, Mohammad Ali Saud, The External Debt Trap for Developing Countries, the Canadian Center of publication and distribution, Jordan, 2006, p. 56-57.

Moreover, add to that the net transfers to individuals and governments abroad. The private spending on consumption is mainly influenced by the size of income and the average tendency of consumption. Thus, the domestic savings will increase in the same size of disposable income, low consumption function and increase the average tendency of savings. Often, the high income associated with high rate of saving, however, that the rich categories do not provide the extent that commensurate with their potential. <sup>(1)</sup>

The main factors that are controlling the rate of savings are not level of per capita income, but it is in pattern of the income distribution. The level of savings will increase whenever the disparity in income distribution gets more. However, in developing countries this disparity is not in the interest of saving, as goes the largest percentage of traders and brokers to consumption.

The sources of saving in the household sector are as follows: <sup>(2)</sup>

- 1 - Contractual savings such as insurance premiums and pensions.
- 2 - The increase in the monetary conditions of the individuals who keep their assets in money or in other assets.
- 3 - Direct investment in the acquisition of land, farms, shops and housing.
- 4 - Payment of debts and its obligations.

#### **B - Savings of business sector:**

The business sector in all projects that operating in the field of productive activity; whether in private or public projects so it should distinguish between the savings in private and public business sector.

1 - Savings of the private business sector:

The net profits savings of projects in the private business sector that is not distributed to the owners of the projects after deducting what has been depreciated from the constant assets. <sup>(3)</sup>

One of the main factors that are governs the size of the net savings for the projects in this sector. <sup>(4)</sup>

- Factors that control the volume of production made and sold, due to the operational and marketing policies.
- Factors governing the prices of factors of production of these projects.
- Factors that control the price of projects productions.
- Factors that govern the contractual payments to the production factors.

The role played by the private sector in financing development projects is a modest role because of its small size of this sector in most developing countries. Also, it is necessary to keep all profits from the projects to establish new projects that may lead to increase the consumption or some of these profits allocated to face any emergency.

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(1) Issam Khoury and others, Economic Development, source already mentioned , p. 334

(2) Medhat Al-quraishi, Economic Development, Wael Center for Publishing and Distribution, Amman, edition 1.2007, p. 191

(3) Mahmoud Younis Mohammad, Mohammad Abdulnaeem Embarek, Economic Development and Planning, Al-Arab renaissance Center of the Printing and Publishing, Beirut, 1985, p. 169-168.

(4) Maytham Saheb Ajam, Mohammad Ali Saud, The External Debt Trap for Developing Countries, source already mentioned p. 60.

## 2- Savings of the public business sector:

The business sector includes all projects engaged in production activity, whether public or private projects, as the savings of the public sector in developing countries do the large part of production activity. The savings that achieved by this sector have great importance as a source of development finance.

The most important factors that limit the size of savings in public business sector are:

- Price policy for the public sector productions.
- State policy regarding the prices of production obligations.
- The policy of employment and wages.
- The level of efficiency and productivity in the public business sector units. <sup>(1)</sup>

Most projects in the public sector in developing countries have centers of monopoly and it is possible to increase the profit of projects through the savings. The public sector even it has many projects, but it has one owner which is a society. There is unit in its ownership while there is diversity in the ownership projects. <sup>(2)</sup>

## 3 - Public sector savings

Government savings is the difference between government revenues, taxes and current expenditure of government. Usually, the government expenditures are more than its revenues which forcing it to resort to public sector savings to cover the deficit. The high taxes help to increase the amount of government savings only if the marginal propensity of government is less than the marginal propensity to consumption of the private sector. <sup>(3)</sup>

### **2 - External funding sources:**

The external funding for economic development in developing countries is arising as a result of the inadequacy of the means of local funding to meet the need of investment that developing countries seek to achieve. Then, lead to a decline in export that is consider as the main source for the FE, which lead the developing countries to receive grants, aid or loans from foreign countries. <sup>(4)</sup>

The forms of external financing are:

#### A - Grants and subsidies:

The transfer of resources from donor countries to developing countries, these resources may be in the form of cash or in kind. If it was money it should be in form of convertible currencies and kind in the form of goods or services consumption and investment or technical expertise. Grants and subsidies source desirable in developing countries because when the countries obtain these resources by this way do not entail obligations subsequent to their national economies.

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(1) Maytham Saheb Ajam, Mohammad Ali Saud, The External Debt Trap for Developing Countries, source already mentioned p. 58- 60.

(2) Mahmoud Younis Mohammad, Mohammad Abdulnaeem Embarek, Economic Development and Planning, source already mentioned p. 172-173.

(3) Medhat Al-quraishi, Economic Development, source already mentioned p. 192

(4) Mohammed Abdulaziz Ajamieh and others, The Economic Development between Theory and Practice, University Publishing Center, Alexandria, 2010, p. 254

There are three foundations that provide the grants and subsidies: <sup>(1)</sup>

1 - Private sector:

The private sector grants and aid to many developing countries, due to the economic, social and humanitarian motives. Also, the firms provided aid to these countries in order to obtain the benefits in current or future of these countries.

2 - Public sector:

The western governments and oil-exporting countries to provide grants and subsidies to developing countries motivated to get on the attitudes of its support in international organizations. Some loans could be transfer to grants and subsidies due to specific political positions. <sup>(2)</sup>

3 - International Organizations (WB and its Institutions)

The AID established in 1960 as institution follows the WB. The most important work is to grant loans on concessional terms and for long time of periods up to 50 years including a grace period up to ten years. In addition, to repayment of loans in local currencies and it does not impose interest on these loans but calculated administrative fee by 0.75 % and often these loans turn into grants and subsidies especially for developing countries.

The most important negatives resulting from the foreign aid is: <sup>(3)</sup>

1 - Using foreign aid to developing countries as means to keep the dependence of the donor countries for aid with more than the gains realized by the donor countries for aid to those gains in developing countries as a result from receiving this aid.

Therefore, it is difficult for the government of developing countries benefiting from this aid to get rid of the economic and political obligations imposed by the donor countries.

2 - The foreign aid and requests of national development in developing countries are not consistent as far as serving the political and economic interests to the donor countries.

3 - Foreign aid tends to create imbalances in the distribution of income and away from the manifestation of justice, which led to inconsistencies in the social structures.

4 - The majority of foreign aid linked with restrictions imposed by the donor countries that obliges beneficiary countries to use the credits to buy all their needs, which may lead to increase the cost of import and increases the burden of debt servicing costs of the development and reduces the efficiency and productivity of the foreign aid.

5 - The competition between developing countries for more foreign aid from developed countries leads to increase the intensity of the conflict between developing countries, and the elimination of all attempts at economic and political cooperation between them.

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(1) Mahmoud Younis Mohammad, Mohammad Abdulnaem Embarek, Economic Development and Planning, source already mentioned p. 203.

(2) Maytham Saheb Ajam, Mohammad Ali Saud, The External Debt Trap for Developing Countries, source already mentioned p. 62.

(3) 1 - Younis Ahmed Al Btrik, International Policies in Public Finance, University Publishing Center, Alexandria, 1998, p. 34-33

6 - The direction of the developed countries to reduce their aid credits to developing countries as a result of the internal problems faced by inflation, unemployment and increasing deficit in BoP.

#### B - Foreign loans

It is a way to transfer resources from the point lent to the borrower and these loans shall be the public or private. The public loans held by the government in developing countries with foreign governments or natural or legal persons. <sup>(1)</sup>

The forms of loans are as follows:

##### 1 - Public loans

The public loans are granted by foreign governments on a commercial basis. Whether the recipient of loans is government of the state or someone affiliated to it. This type of loan is often based on trade and the terms of the interest rate and repayment period.

To distinguish between public and private loans in terms of the loans granted. Then, it is public loan if the donor is one of the governments or public foundation and it is private loan if it granted by a private sectors.

The public loans are provided as following: <sup>(2)</sup>

A - The loan should be providing in the form of a certain amount of convertible currency. In this case the lender state placing it at the disposal of the borrowed state for using it to buy the obligation of development such as machinery, equipment and materials.

B - The lenders state should ask the borrower state to spend the loan for its needs of economic development from the lending state markets.

C - The loan should be allocated to implement specific projects. In this case, the lender state provide the borrowed state by all equipment required with the expertise to create it and run and at the same time training of national experts to use and how to run it.

##### 2 - Private loans

Those loans are held by people whether they are natural or legal persons in developing countries with non-residents abroad or the international finance organizations. <sup>(3)</sup>

It can be defined as loans received by the state from foreign entities or individuals and it may come as form of subscribe to the instruments issued by that state, or in projects that are held by both whether it was in bonds that carry fixed interest or through the shares. <sup>(4)</sup>

The most important forms that taking by private loans:

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(1) Maytham Saheb Ajam, Mohammad Ali Saud, The External Debt Trap for Developing Countries, source already mentioned p. 71.

(2) Samir Mohammed Abdulaziz, Public Funding, Library and Printing press of Alshaa, edition 2.1998, p. 315-316-317.

(3) Mahmoud Younis Mohammad, Mohammad Abdulnaeem Embarek, Economic Development and Planning, source already mentioned p. 203.

(4) Maytham Saheb Ajam, Mohammad Ali Saud, The External Debt Trap for Developing Countries, source already mentioned p. 72-73.

First - Importers Credits: There are three types:

1 - Payment in advance before delivery:

The national project (import) can request from foreign importer to pay the value of sales in advance. There are many arabic countries that export oil has request loans from the foreign companies operating in the oil sector.

2 -Message to open a credit bank:

If the credit letter arrived from importer bank to exporter bank, then the exporter bank can discount bill of exchange in his bank and it should be accepted by the bank because he knew that the exporter has amount of money in another bank.

3 - Negotiating loans:

In this case, The exporter bank approve to deduct the bills that was withdrawn on importer and that before the approval of the importer or the bank, where the exporter get the value of sales, but it is still responsible with the bank, if the bills are not accepted from other parties.

Second - The dependence of exporters:

The national projects in developing countries obtained loans from foreign companies executing the project or the exporters of devices and equipment, which means that foreign companies are funding the project for part of production agreed upon to repay the loan. Also, it may use by some foreign companies to provide loans on concessional terms to finance projects in the beneficiary countries in exchange for a contract of the project.

Third - Loans from the holding companies:

The companies provide the loans to its subsidiaries abroad according to special conditions. If there are no conditions on foreign exchange "Foreign Exchange Control" the process is just a transfer of funds from one country to another through commercial banks.

Fourth - Loans from international organizations:

The foreign loans obtained by the state borrowed (city) from the international organizations international. The WB for reconstruction and development, the IMF and their subsidiary organizations are the most important international organizations that give loans to developed countries and developing countries. The foreign loans obtained from governments are different to those loans from international organizations, because each of them have many advantages and disadvantages, and regarding the extent of the impact in these organizations on the economic and political aspects in the borrowing countries. Where the loans from international organizations are preferred by the developing countries because they do not interfere in the internal affairs of the states and the decisions of this organization became the main reason in the international economic crisis. <sup>(1)</sup>

C - Foreign Investments:

FI is one of the sources of funding used by developing countries to cover the resource gap faced by local source. The FI have helped to alleviate the problem of foreign loans and this is for two reasons:

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(1) Maytham Saheb Ajam, Mohammad Ali Saud, The External Debt Trap for Developing Countries, source already mentioned p. 75.

- Provision of financial flows from developed countries that have surplus to developing countries that have deficit.

- The means of transmission of foreign resources to developing countries things like machinery, equipment and technological knowledge.

FI are divided into two forms:

#### **A -Direct Foreign Investments (DFI):**

Investments are managed by foreigners because of its ownership; often turn these investments into agriculture, industry, and production activities. The DFI is characterized by a high degree of tradition, whether that was in the form of loans or DFI as it is characterized by rapidly moving beyond the profit. At present, the developing countries welcomes to this form of DFI, and work on attracting in many of the incentives and legal safeguards. <sup>(1)</sup>

The DFI take forms as following: <sup>(2)</sup>

##### 1 - The direct private of FI:

These projects are owned by foreigners, the importance of investments has increased in the nineties as a result of the privatization process in developing countries. That gave the opportunity for foreigners to buy these companies. The number of companies that were privatized is 50 companies worth \$ 2.5 billion in 1988 and rose to 750 companies, amounting to \$ 24 billion in 1994.

##### 2-Bilateral of Direct Foreign Investment:

It is represented in these projects that involve by local investors in the host country with the foreign investor in the ownership of projects built on their land. The foreign partner may be private investors with the government of hosting country. Usually foreign private companies prefer to be local partners individuals or private companies, because local investors more willing than the government to provide local expertise and services.

But in some cases require the need to have local investors of the government of the host country itself especially in the exploitation of natural resources. Although, participate the government of the hosting country in the investment project has features which are considered participating official endorsement of the project by the government. As they reduce the political risks that might be exposed to the foreign investor from the nationalization or confiscation or other risks. In addition, the government provides many of the aid and benefits especially with regard to custom exemptions, tax, and many other facilities. The main advantage achieved by this type of investment of the host country that foreign capital is not unique to take decisions of management, operation and profits, but it reduces the financial burden that faced by the host economy, and it also results in raising the level of administrative efficiency and local technical.

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(1) Sabti Wsila, The Financing of Local Development, Oatere for Printing and Publishing, Cairo, 2009.p. 31-32

(2) Mohammed Abdulaziz Ajamieh and others, The Economic Development between Theory and Practice, source already mentioned p. 315-316

## **B - Indirect Foreign Investment (IDFI):**

The IDFI are as follows: <sup>(1)</sup>

1- Private loans: The private loans provided by foreign foundations or private individuals and other foreign exporters who supply goods and services to the borrow countries. Also, it is Include loans obtained from commercial banks, and it became the most important sources of financing for many developing countries especially in Latin America.

2- Subscribe to the shares or bonds that issued by the proposed states: The owners of foreign capital do subscribe to shares or bonds issued by the borrow country, but those investors do not have right to the shares that give them the right to manage the project.

### **The negative effects of FI:**

Although the DFI has added to the capital, but this add in the long term may not be enough to the center of monopoly and the protection offered by the host countries where enable the foreign companies to make profits, which represents significant burden on the BoP in the host countries.

One of the most negative impacts on FI is: <sup>(2)</sup>

1 - The host country would provide a lot of incentives for FI, including services such as land, housing, communications, water, electricity and financial assistance. Often they are provided in low prices and supported. So, it may have effect on the host country.

2 - The negative effects on savings: The profits made by companies may be affected by the foreign companies then it may affect the domestic savings.

3 - What the multi-national companies export from the proceeds of FE out of the country more than it import into the country. Therefore the host country may not have sufficient reserves that may affect the development.

4 - Negative impact on the evolution of the host country and the foreign investor may exploit its resources for the export.

D - The flows and conversions of the international institutions and organizations:

The international organizations have important in the field of international finance and most important of these institutions are the WB for reconstruction and development, IDA and IMF.

A - The World Bank for reconstruction and development:

The Bank provides long-term loans for economic development especially in developing countries in order to achieve the infrastructure projects. The WB is helping developing countries in preparing their development plans and followed the implementation of development projects. Also, the bank proposes economic policies and development programs. <sup>(3)</sup>

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(1) Mohammed Abdul Aziz Mohammed, the Finance role to the IMF and the World Bank, source already mentioned p. 28-29-30.

(2) Medhat Al-quraishi, Economic Development, source already mentioned p. 202

(3) Sabti Wsila, The Financing of Local Development, source already mentioned .p. 27

#### B - International Finance Foundation:

The total of investments is \$ 1.7 billion in 1989 divided to 468 projects. The finance foundation is restricted to private sector projects in countries and it gets loans from the WB through the issuance of bonds and marketed them to international financial markets. The Foundation is funding in partnership with governments and affiliates in the host countries.

#### C - The International Development Agency:

This organization an important source of loans which its benefits are very low and has long period provided to developing countries that have low-income.

This institution obtains its sources from grants and loans. The IDA is awarded only to developing countries which has a average per capita income is \$ 580 per year or less. <sup>(1)</sup>

D - International Monetary Fund: The IMF provides financial support to countries that suffer from a deficit in its BoP where the fund as a lender of financial resources, technical assistance, policy advice on economic and statistical issues. The member state can benefit from the fund's resources to treat the imbalance in the BoP. <sup>(2)</sup>

#### **The positive effects of international financial institutions:**

The positive effects that the international financial institutions achieved are: <sup>(3)</sup>

1 - Helping the member states to treat with their problems in defect of the BoP especially through the fund and the bank.

2 - Contribution of the treatment in financial crises that faced many countries especially that occurred in the financial and monetary markets.

3- The international finance institutions (the WB or IDA) provided funding to establish the infrastructure projects.

4 - The international finance institutions (the WB or IDA) provided funds to investment through the provision of funding for the establishment of productive projects which led to assist in the growth and development of the economies of member states.

5- The international finance institutions especially the WB and the IDA to provide funding to combat poverty especially in countries that have low income.

6 - Give a clear interest for the development of resources especial in countries that have low development in their human resources through programs to improve education and health.

7 - The importance of international financing institutions by experts and specialists working to provide the advice and expertise in the administration of projects and also to oversee the operation to achieves its activities efficiently. So, that will help them to achieve greater benefits and contribute to wider economic growth.

8 - The international finance institutions notably the WB help heavily indebted countries in order to reduce the burden of this debt through providing the financial assistance.

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(1) Mohammed Abdulaziz Ajamieh and others, The Economic Development between Theory and Practice, source already mentioned p. 299-300

(2) Sabti Wsila, The Financing of Local Development, source already mentioned .p. 29

(3) Flaih Hassan Khalaf, International Finance, Warraq Foundation for Publishing and Distribution, Jordan, 2004, p. 322-321.

## **The negative effects of international financial institutions:**

The most important of negative effects: <sup>(1)</sup>

1 - The establishment of the international financial institutions linked to interest of the advanced capitalist countries which suffered from the depression, disorder in the finance transactions, IP, and instability of the value of currencies, ER and defect in the BoP after the World War II.

2 - The system of the institutions that was developed and introduced to ensure control of the capitalist countries and developed countries and the weakness of the role in developing countries, where the quotas contribute to the capital in these institutions especially the IMF and WB based on several criteria including the national incomes of the member states.

3 - The work of the international financial institutions (IMF and WB) was done by treating with the problems in developed countries, without providing especial attention to the problems in developing countries.

4 -The link of funding system and the International Monetary that played by the international financial institutions (IMF and WB) with dollar after abandon of the gold, which led to the emergence of many problems resulted from the dollar crisis. The most prominent one of the dollar crisis was in the early of seventies that related to defect of balance in the U.S. trade. Therefore, collect the assets of dollars in Europe that led to reduce the confidence of the dollars, and decrease its value, disorder funding, international relations and ER, then, led to stop the dollar's convertibility into gold.

The effects of the organizations that they provide only limited of states' needs, as they offer loans and contributions to limited projects. However, the international organizations defend on its policy on the basis that the loans are not especial for the project itself. <sup>(2)</sup>

**Fifth;** The effectiveness of the sources of foreign resources in financing and advancing the development:

The grants and subsidies are preferable to external borrowing as a source of financing for development because it does not obligate for the future payment. Also, they represent additions to the real resources and they are not like the loans, which can impose a constraint on the continuation of the development process and represented in the need for foreign resources to meet the installments of these loans and their benefits.

The effectiveness of grants and subsidies as a source of external funding and development plans in the developing countries are controlled by a number of considerations including: <sup>(3)</sup>

1 - Size of the subsidies

2 - Form was made

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(1) Flaih Hassan Khalaf, International Finance, source already mentioned p. 324-325.

(2) Mohammed Abdulaziz Ajamieh and others, The Economic Development between Theory and Practice, source already mentioned p. 257

(3) Mahmoud Younis Mohammad, Mohammad Abdulnaem Embarek, Economic Development and Planning, source already mentioned p. 206.

3 - The kind of conditions that may response to use of those subsidies

4 - The degree of regularity of the flow of those subsidies

The effectiveness of this source increase as the volume of aids represents a high proportion of the funding needed to finance development projects during the period of time, and whenever it provided in form of convertible currencies can be used to obtain goods and investment services without the obligation to buy from the markets of donor countries. <sup>(1)</sup>

The volume flow of aids is found small for the resources of financing required and also for the ability of developed countries. What the developed countries provided to developing countries of aid did not exceed 0.6% in the fifties of the national income this ratio decline to reach 0.35% in 1975. In addition, the aid from developed to developing countries was irregular, which make the dependence on it to financing of economic plans is uncertain.

The role of foreign loans in financing and promoting development in developing countries has number of considerations that govern the effectiveness of the method of foreign borrowing in advance of development and achieving a positive impact.

The most important considerations are: <sup>(2)</sup>

1 - Must allocate the proceeds of foreign loans to finance investments and raise the productivity of the national economy and raise the export capacity of the borrowing countries.

This point includes two aspects: First, the use of foreign loans to finance investments raise the productivity of the national economy is warning to waste the proceeds of these loans in spending on the projects. Second, need to increase the exports to the borrowing countries and the importance of using this increase in exports to payment of the installments and interest of loans for the borrowing countries.

2 - The need to fit the conditions of foreign loans with the nature of projects that use foreign funding, where the projects are long-term development which is important to enter the projects to the national economy.

3 - The foreign loans should be free from any conditions result in the imposition of any kind of political or economic dependency in the borrowing countries.

There are some observations on the above considerations:

First; The inflation of the external debt in developing countries and waste a large proportion in their export earnings, which lead to accumulate of external debt in developing countries and entry of these countries in negotiations with the borrowing countries to reschedule debts and refinancing them with high costs. The increase in external indebtedness of developing countries reflects the best use of the proceeds of foreign loans and inability to develop the capacity of the export for these countries.

Second; unable to liberation of the political or economic restrictions in the economy, even for foreign borrowing from international foundation.

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(1) Mohammed Abdulaziz Ajamieh and others, notes in the Development and Planning, source already mentioned p. 154-155

(2) Mahmoud Younis Mohammad, Mohammad Abdulnaem Embarek, Economic Development and Planning, source already mentioned p. 209-210

The role of direct foreign investment in the promotion of development has many advantages such as: <sup>(1)</sup>

1 - The DFI has studies in order to care for an investors do not to provide their funds and expertise that only after the feasibility study shows the economic viability of the project, which invests in it.

2 - The DFI is not just a transfer of cash foreign help in contribute to deal the gap of FE, but to transfer real resources from outside like equipment, modern machinery, technical, administrative, organizational, financial, and marketing expertise for establishing the projects, which can help development.

3 - The DFI can be contributed in the creation of economies that drive the movement of manufacturing in developing countries. Also, it provide some supplies of factors of production and establish some projects that helping to provide production services and contribute to open new markets abroad for local produce.

Thus, the positive effects can be turned to negative effects in the absence of controls of FI, which leads to develop of economic activities.

The most important controls that the role of direct FI and maximize the role of development funding are: <sup>(2)</sup>

1 - The need to include the national investment plan in the developing country to the areas of economic activity that allows the entry of FI with a focus on activities that require advanced technology and contribute to increase the productivity of the national economy.

2 - The need for the participation of the national capital with foreign capital in investment projects.

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(1) Mohammed Abdulaziz Ajamieh and others, notes in the Development and Planning, source already mentioned p. 157-158-159-160

(2) Mahmoud Younis Mohammad, Mohammad Abdulnaeem Embarek, Economic Development and Planning, source already mentioned p. 213-214

## **Part two: Programs and World Bank loans in developing countries**

**First:** The World Bank loans to the developing country:

WB provides developing countries loans short, medium and long-range period of repayment of 15-20 years and the WB provides the standards upon when lending in order to ensure that they can repay the loan instalments with interest. The bank focuses on service projects such as energy and transport and reduces the exchange rates on the project as a result to that the bank's participation in the overall development process are weak. <sup>(1)</sup>

**Second;** the principles of the lending process:

There are several conditions should be provided in order for the lending of the state require funding. <sup>(2)</sup>

These principles are following: -

1 - The possibility of granting loans by the WB for reconstruction and development as well as granting loans to private projects, but must be guaranteed (the project and loans to related matters of interest and commission.....etc.) by the member states or agencies similar to the members that accepted to the Bank.

2 - WB lending should be treating carefully and avoid the risk of bank loans. The financial decisions of the bank must be based on studies by the structure of the member states economy.

3 - The returns of the bank loans should be monitoring and supervising. The WB takes measures and arrangements to ensure that money was used only for the project goals.

**Third;** assistance provided by the WB to developing countries:

The financial support provide by WB to help poor countries and provide them with technical assistance and funding for projects long term development.

In the first twenty years of the bank life two-thirds of aid provided by the Bank went to infrastructure projects especially in the field of electric power, transportation. Then, the bank headed to diversify the areas which it's provides aid. Also, it forwards the funds to develop the following sectors in developing countries, including: agriculture, rural development, small industries, development of cities as well as assistance to poor countries for the basic needs such as clean water, sanitation, medical care, family planning, nutrition, education, population. In addition, the Fund's programs that guide the infrastructure have been changed so as to serve underserved areas for example in transportation headed to establish road links between the villages and markets. Although, the loans provided by the WB and the IDA differ in their financial conditions, but they are agree that any projects approved to fund must be meet the technical and economic conditions.

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(1) Maytham Ajam, International financial, source already mentioned p. 290

(2) Mohammed Abdul Aziz Mohammed, the Finance role to the IMF and the World Bank, source already mentioned p. 270-271.

Therefore, the WB does not compete the other funding sources because it's provides loans for projects that governments cannot manage the funding from other funding sources with appropriate interest rates. The bank is working to support developing countries to increase their creditworthiness to be able to obtain funding for its projects from other sources. <sup>(1)</sup>

**Fourth;** improve the policy of WB borrowing:

The processes of borrowing from international financial market and the financial resources of the WB Group consider as most important features of programs that issue global bonds in dollars in international capital markets. The first offering of the bonds was i 1974 in the U.S. market and issue its first bond outside the U.S was in 1954. The reason that the bank enters to financial markets and borrows them was the convention on the bank provided to encourage FI by the private sector, through the provision of guarantees or actual participation in the provision of loans to private investors. The private sector has the ability to rely on itself and seek loans directly from financial markets and the administration of the bank does not want to be exposed loans guaranteed to the risks.

The main goals of various types to the process of issuing bonds of the World Bank are summarized as following:

1 - The WB borrow from financial markets is subject to the private sector in advanced industrial countries to issue global bonds to encourage the flow of capital from the developed countries to developing countries especially if these bonds are guaranteed with the eligibility of credit from first class, because they are covered with contributions of member states of the bank's capital.

2 - The purpose of the issuance of bonds is to reduce the cost of borrowing by the WB, through the creation of a new tool and create a system for the distribution of bonds denominated in dollars and attract investors and financial intermediaries.

There are two main ways for the process of marketing of WB bonds:

A - The bonds and stocks put directly with the governments of member states, government agencies and central banks.

B - Offer the versions to investors in the financial markets, through investment banking institutions or commercial banks. <sup>(2)</sup>

**Fifth:** The World Bank's impact on the domestic policies of developing countries:

Usually, the conditions that set for the lending have impact on the general policies of the borrower countries, and at the same time have indirect impact on the projects. The reason that the administration of the bank intervene in the general policies of the borrowing countries and it is a problem of interest to the bank as a lender.

The bank intervention in the public policy of the borrowing countries can be summarized as follows:

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(1) Mohammed Sayed Abed, International Trade, source already mentioned p. 413-414.

(2) Maytham Ajam, International financial, source already mentioned p. 284-285-286

A - The Bank's administration insists to be the method that it uses subject to perfect competition and spending the money borrowed should be under control, so as not to take secret policies to support and protect the project at the expense of the public treasury of the borrowing countries.

B - The bank intervenes in the monetary and finance policy of the country that used loans through his determination to fight the phenomenon of inflation. As he did with Chile in 1949 or take steps to reduce the deficit in the state budget by taking pledges to reform the tax system. Or reduce the deficit in the BoP by the revaluation of the exchange rate of the local currency. <sup>(1)</sup>

It also asks to reform of land-use systems and improves health, housing, and opposes the country request to short-term loans from foreign suppliers, as it did with Peru in 1950. Therefore, there are several examples from the WB requests to implement of the limited deflationary policies and they are summarized as following:

- 1 - Reduction of the increase in the level of the requesting country for recruit.
- 2 - Reduction of the increase in the creation of credit (loans) to reduce the inflation.
- 3 - Reduce the budget deficit by reducing expenditure in non-production purposes.
- 4 - Increase the revenues by reducing public investment.
- 5 - Reduction of the increase in wages and salaries in the public and private sectors.
- 6 - Reduce the support for public projects.
- 7 - Reduce the value of local currency as a means to control the deficit in the balance of payments.
- 8 - Develop programs to remove the distortion in the structure of prices and food prices.

**Sixth;** The geographic distribution of WB loans:

The WB attention in the first years after its established was focused to Western European countries that were devastated by the war. In 1948 the total value of loans granted by the bank for reconstruction about \$ 500 million and it is distributed as follows: \$ 250 to France, \$ 195 million to the Netherlands, \$ 40 million \$ to Denmark and \$ 12 million to Luxemburg. In the end of 1952 the total loans granted by the bank were 68 loans formed in the total value of 1.4 billion dollars has gone more than 35% of this amount \$ 487 million to European countries that mentioned above. While the rest distributed over 64 countries, so every country got \$ 14 million in the average. The World Bank has stopped its loans to the industrial countries since 1968 and was last loan granted to Japan in 1966 since that time its shift more and more to the less developed regions in southern Europe then to non-European countries (South East Asia). <sup>(2)</sup>

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(1) Maytham Saheb Ajam, Mohammad Ali Saud, The External Debt Trap for Developing Countries, source already mentioned p. 237-238-239

(2) Maytham Ajam, International financial, source already mentioned p. 292

Table (1) the geographic distribution of the World Bank loans and the International Development Agency (IDA) during the period 1971 - 1990 (million dollars)

World countries	arithmetic average (1)1975-71	(1)%	1980	(1)%	arithmetic average (2)1985-81	(2)%	1990	(2)%
1-East Africa	366.2	9.6	815.0	7.1	1874.7	13.5	3932.9	19.0
Bank's share	176.8		150.5		806.5		1147.0	
Agency share	189.4		664.5		1068.2		278.9	
2-West Africa	257.6	6.7	731.6	6.4				
Bank's share	167.4		439.2					
Agency share	90.2		292.4					
3-East Asia	588.2	15.4	2368.9	20.6	5857.5	42.0	6397.1	30.9
Indian Ocean								
Bank's share	475.1		2160.5		4048.1		4174.8	
Agency share	113.1		208.4		1809.4		2222.3	
4-South Asia	685.7	17.9	2436.5	21.2				
Bank's share	102.2		1225.0					
Agency share	583.5		1211.5					
5-Europe	1026.3	26.9	2445.7	21.3	2941.1	21.1	440.70	21.3
Middle East								
North Africa								
Bank's share	912.4		2174.0		2634.6		4131.2	
Agency share	113.9		271.7		306.5		275.8	
6-Latin America and the Caribbean Sea	896.7	23.5	2684.0	23.4	3264.9	23.4	5964.7	28.8
Bank's share	861.4		2595.0		3226.5		5726.7	
Agency share	35.3		89.0		38.4		238.0	
Total	3820.7	100.0	11481.7	100.0	13937.5	100.0	20701.7	

Source: Maytham Saheb Ajam, International Finance, Zahran Publishing Center, Amman, 2008, p. 295.

Table (1) shows the following:

1 - The value of average loans granted during the period from 1971 to 1975 (3.8207 billion dollars) and the share of East and Southeast Asia were 33.3% of total loans, then the Middle East, North Africa and Europe, where they earned 26.9%. The area of the Latin America in third rank, where they earned 23.5% while the share of loans from the African continent was 16.3% of the total loans granted by the WB and the IDA.

2 - Increase the volume of loans granted in 1980 to (5.11 billion dollars), which represents three times during the grant period (1971-1975) The interest in the Asian continent has been increased, where they earned 41.8% of total loans, followed by Latin America where it earned 23.4% and then came the Middle East and North Africa and Southern Europe by 21.3%, while the African continent has a share of 13.5% of the total loans granted in that year.

3 - Increase the annual average of the loans granted by the two institutions during the 1981-1985, until it reached the amount of 1.3937 billion dollars. The share of South-East Asia was 42.0% and the share of the Latin America was 23.4%, then the Middle East and North Africa and Southern Europe increased by 21.1% while the African continent has low share and it was 13.5%.

4 - Increased the volume of loans allocated to the world countries in 1990 and they reached \$ 20.7017 billion, equivalent to almost five times to the loans granted during 1971-1975. It is clear that the geographical distribution has not changed during 1990 and every country has maintained its position, but we note the data that the interest in South-East Asia is reduced to (30.9%) and increased the attention to Latin America in recent years (28.8%) and in third rank came the Middle East and it increased by (21.3%) as the situation improved for the African continent, although it is still in fourth rank, but they got a rate of 19.0%.

**Seventh;** The World Bank loans to the developing countries:

The WB is providing loan for developing countries according to the division geographically as following:

- 1 - WB loans to Africa.
- 2 - WB loans to East Asia and the Pacific Ocean.
- 3 - WB loans to the Europe and Central Asia.
- 4 - WB loans to the Latin America and the Caribbean Sea.
- 5 - WB loans to the Middle East and North Africa.
- 6 - WB loans to South Asia.

The services provided by the Bank and the International Investment for the two groups of countries:

- 1 - Group of North Africa and the Middle East.
- 2 - Group of African countries and others non-Arabic countries. <sup>(1)</sup>

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(1) Mazen Abdel-Salam Adham, economic relations and international monetary systems, source already mentioned p. 113.

### **World Bank loans to the Middle East and North Africa:**

The Middle East and North Africa have some circumstances and economic characteristics different to other developing countries.

The Middle East and North Africa are facing economic and social conditions make them eligible for assistance by the WB and these conditions as following: <sup>(1)</sup>

Group of the population: 0.3 billion people

Population growth rate: 2%

Life expectancy at birth: 68 years

Infant mortality rate: per 1000 born is about 44

Female illiteracy rate of young women: 26%

The number of people living with HIV and AIDS: 0.07 million

GDP in 2002 (dollars 1995): U.S. \$ 0.9 billion.

Average annual growth rate of per capita GDP of 1.4%

Per capita gross national income in 2002: U.S. \$ 2070

External debt in 2003: 188.1 billion dollars

The countries in the Middle East and North Africa are eligible to borrow from the World Bank. There are eleven countries in the Middle East and North Africa is eligible to borrow from the World Bank and North Africa, and those countries are. Jordan, Tunisia, Algeria, Iran, Saudi Arabia, Egypt, Yemen, Djibouti, Iraq, Lebanon, Morocco.

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(1) Mohammed Abdul Aziz Mohammed, the Finance role to the IMF and the World Bank, source already mentioned p. 425-426.

Table (2) World Bank lending to borrowing countries in the Middle East and North Africa by axes focus and sectors of the financial years 1993-2002 (millions of dollars)

Axes Focus	Annual average 1993-97	Annual average 1998-99	2000	2001	2002
Economic administration	50.0	5.2	0.0	11.9	5.0
Public sector administration	79.5	89.8	130.6	102.6	93.3
The rule of the law	16.1	59.5	9.3	56.5	49.1
Development of the financial and private sectors	350.4	361.1	61.8	78.8	204.1
Trade and integration	28.3	38.8	3.0	3.4	24.8
Social protection and risk administration	68.3	87.4	100.0	5.6	11.0
Social development, gender equality and participation	69.0	64.5	71.6	52.5	13.4
Human development	49.0	179.0	187.9	35.7	61.6
Urban development	140.8	125.9	143.5	46.7	55.8
Rural development	214.3	175.3	89.2	86.4	14.5
Administration of Environment and Natural Resources	204.3	94.2	123.3	27.5	21.7
<b>Total of axes focus</b>	<b>1,305.2</b>	<b>1,280.8</b>	<b>920.0</b>	<b>507.5</b>	<b>554.5</b>
<b>Sectors</b>					
Agriculture, fishing, and forestry	234.8	147.9	120.6	46.5	2.9
Law and justice and public administration	127.4	236.0	108.9	161.5	74.7
Information and communication	11.0	33.8	1.3	59.2	69.9
Education	97.2	94.2	197.1	72.3	38.0
Finance	161.8	190.8	5.3	0.0	110.0
Health care and social services	89.2	159.8	158.9	39.3	41.7
Industry and trade	170.9	168.6	47.9	27.0	71.7
Energy and mining	82.2	56.8	0.0	0.0	1.3
Transport	146.5	81.7	59.6	82.8	70.9
Water supply, sanitation and flood protection	175.3	110.9	220.5	19.0	73.1
<b>Total sectors</b>	<b>1,305.2</b>	<b>1,280.8</b>	<b>920.0</b>	<b>507.5</b>	<b>554.5</b>
The world bank for reconstruction, development	1,155.7	955.5	760.3	355.2	451.8
International Foundation for development	149.5	325.3	159.8	152.3	102.7

Source: Annual Report of the World Bank for reconstruction and development in 2002.

Table (2) illustrate the amounts of borrowing for the Middle East and North Africa countries. The annual average lending of the WB and the IFD has reached 1.3052 billion dollars during 1993-1997 and reduced to 1.2808 billion dollars during 1998-1999 and then reduced to 920.0, 507.5 and 554.5 million dollars during 2001-2002 and so it is very clear the money provided by the WB more than money provided by IFD.

The limited objectives of the bank in the Middle East and North Africa in the investment circumstances and removing impediments of growing in Algeria and the Arab Republic of Egypt, Iran, Jordan, Lebanon and Syrian and Gaza Strip as well as the Bank's work in this area to support the financial sector in Algeria and Yemen.

In addition, to supporting investment the Bank's work on the development of trade, support the private sector, technological information and improve public sector performance. Also, the bank is interested in the development of the private sector and improves the infrastructure and support regional cooperation between all neighbouring countries. The basic environment include transport, water supply, sanitation, energy, mining, education, health care and other social services were a larger share of total loans during the period covered by the table where the agriculture sector had specific interest during the last period of the last century, but it showed significant decrease in the bank's support, while the loans allocated to support the law, justice and public administration maintained on levels closer to the stability than other sectors. <sup>(1)</sup>

## 2 - World Bank loans to Africa

The Africa regions have characterized by some of the economic and social characteristics that made them to face of great challenges of development and worthy of aid from the World Bank for countries eligible for lending in order to achieve economic and social development.

Facts and economic indicators for the Africa region: - <sup>(2)</sup>

Total population of 0.4 million people

Population growth rate: 2.2%.

Life expectancy at birth: 46 years

Infant mortality rate: per 1000 live births around 1.5

Female illiteracy rate of young women: 27%

The number of people living with HIV and AIDS: 28.5 million

Per capita national income in 2002 \$ 450

Private external debt in 2003: 219.7 billion U.S. \$

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(1) Mazen Abdel-Salam Adham, economic relations and international monetary systems, source already mentioned p. 114-115.

(2) Mohammed Abdul Aziz Mohammed, the Finance role to the IMF and the World Bank, source already mentioned p. 402.

However, they face enormous challenges of development; half of their populations live on less than one dollar a day. The health indicators and the population in this region show the wrong direction as a result of epidemic of HIV and AIDS the number of those with the disease about 30 million people, as the internal conflicts of political and armed in sometimes drains the weak force politically and economically.<sup>(1)</sup> The situation requires large resources to promote social and economic development in those countries, so it requires the intervention of the WB through the lending and assistance. There are forty seven countries in the Africa region are eligible to borrow from the WB for reconstruction and development and the IFD, these countries are: Ethiopia, Eritrea, Angola, Uganda, Benin, Etsuna, Burkina Faso, Burundi, Chad, Tanzania, Togo, Comoros, Central African Republic, Congo, Democratic Republic of Congo, South Africa, Cape Verde, Rwanda, Zambia, Zimbabwe, Sao Tome, Senegal, Soizilan, Sudan, Sierra Leone, Seychelles, Somalia, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Equatorial Guinea, Cameroon, Côte d'Ivoire, Kenya, Liberia, Lesotho, Mali, Madagascar, Malawi, Mauritania, Moiius, Mozbaiq, Tamibia, Niger, Nigeria.<sup>(2)</sup>

The WB is the largest funder of development aid in Africa, which supports projects that contribute to growth and agree with strategic objectives set by African governments to reduce poverty.

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(1) Mohammed Abdul Aziz Mohammed, the Finance role to the IMF and the World Bank, source already mentioned p. 403.

(2) Mazen Abdel-Salam Adham, economic relations and international monetary systems, source already mentioned p. 116.

Table (3) World Bank lending to borrowing countries in the Africa by axes focus and sectors of the financial years 1993-2002 (millions of dollars)

Axes Focus	Annual average 1993-97	Annual average 1998-99	2000	2001	2002
Economic administration	165.9	165.0	78.2	138.5	138.7
Public sector administration	317.6	291.7	495.3	429.6	851.9
The rule of the law	42.1	21.0	26.7	34.0	22.5
Development of the financial and private sectors	564.6	509.0	466.7	625.8	780.7
Trade and integration	158.4	120.5	53.7	261.5	46.6
Social protection and risk administration	67.4	117.2	140.5	376.4	98.3
Social development, gender equality and participation	145.9	167.6	210.5	491.8	347.4
Human development	256.3	267.7	208.5	399.4	739.0
Urban development	319.1	253.8	154.9	206.1	279.6
Rural development	237.9	393.6	151.8	296.3	329.2
Administration of Environment and Natural Resources	201.0	165.0	172.4	110.0	159.9
<b>Total of axes focus</b>	<b>2,476.0</b>	<b>2,463.2</b>	<b>2,159.1</b>	<b>3,369.6</b>	<b>3,793.5</b>
<b>Sectors</b>					
Agriculture, fishing, and forestry	164.1	170.0	111.5	212.0	210.4
Law and justice and public administration	551.4	610.9	834.9	880.8	906.9
Information and communication	19.2	36.7	17.3	21.1	33.8
Education	223.5	304.4	189.8	209.5	472.6
Finance	172.0	53.7	121.7	200.1	192.8
Health care and social services	240.1	273.6	183.1	889.9	616.6
Industry and trade	271.1	94.3	104.7	170.6	266.7
Energy and mining	269.3	244.0	176.3	198.0	490.3
Transport	376.1	533.5	263.9	229.8	491.1
Water supply, sanitation and flood protection	143.1	142.0	155.9	357.8	112.2
<b>Total sectors</b>	<b>2,476.0</b>	<b>4,632.2</b>	<b>2,159.1</b>	<b>3,369.5</b>	<b>3,793.5</b>
The world bank for reconstruction, development	62.3	31.2	97.6	0.0	41.8
International Foundation for development	2,413.7	2,432.0	2,061.5	3,369.6	3,751.6

Source: Annual Report of the World Bank for reconstruction and development in 2002.

Table (3) illustrates the total loans provided by the World Bank:

1 -The loans provided by the bank and the institution took increase in 2001-2002 as they are different to loans granted to the North Africa and the Middle East.

2 - If we take the beneficiary sectors we note that the loans were granted to improve public sector management (Law and justice and public administration) has received the large share during the period covered by the table.

3 - Total loans granted to the sectors of information and communications, education, health care, transport, water supply, sanitation, energy, mining and other social services about 2483 million in 2002 which is 65.5% of total loans.

4 - The World Bank's contribution has been decreased in the provision of funds granted to the African countries it did not exceed 5% in any of the years covered by the table and the International Development Association was funding the African countries and this is a situation was different to the North Africa and the Middle East countries, which the bank was the main financier of these countries.

Finally, the economic development in developing countries are in the first phase needs to external sources of funding as a result of the weakness of domestic resources, in order to obtain funds, expertise. Therefore, for the development of these countries due to the high levels of poverty, high rates of illiteracy, poor health services and lack of availability of infrastructure as well as the lack of adequate experience with pushing these countries to try to get the funding sources to achieve growth. The role of the bank in financing development in developing countries requires finding solutions to the obstacles facing the progress in developing countries, through providing assistance, loans and limited experience in order to develop those countries, but the World Bank's objective is to serve the member countries and not developing countries.

**Chapter Three**  
**Trends and effects of World Bank  
programs to Egypt**

## Part one: The performance evaluate of the World Bank to the developing countries:

Before we are exposed in last two chapters to the role of the WB in Egypt we will review evaluating the performance of the WB to developing countries and the versions of previous studies.

**First;** The ratio of the WB to GDP in developing countries:

The WB loans provided to developing countries through its contribution to GDP, through the following table: -

Table (4) the ratio of the value of World Bank operations in different areas to GDP from 2000 to 2010

countries	Operation value (million \$)	Average of the operation per year (million \$) (A)	domestic product value (2010) (million \$) (B)	Ratio of (A,B)
Total of the developing countries	248,386	24,836.6	7,526	0.33%

Source: - The data was extracted from the World Bank bulletin.

The table (4) illustrate that the percentage of WB loans to GDP is very low and we can note the lack of effectiveness in increasing the GDP to economy development. Also, it proves the vulnerability of the amounts to be lent by the WB to developing countries that need large sums of cash foreign financing of the development process.

**Second;** The proportion of WB operations to the international reserves:

The financial liquidity problems in developing countries are the problems that arise from a lack of international reserves to meet the growing needs of trade and BoP. The country can create those reserves by the achieved surplus in the trade account and surplus account in long-term capital, as well as through loans and credits obtained from international institutions.

Table (5) the ratio of World Bank loans to international reserves in developing countries from 2000 to 2010

countries	Operation value (million \$)	Average of the operation per year (million \$) (A)	The value of international reserves (2010) (million \$) (B)	Ratio of (A,B)
Total of the developing countries	248,386	24,836.6	1,552,3	1.6%

Source: - The data was extracted from the World Bank bulletin.

The table (5) illustrate that the percentage of loans from the World Bank for developing countries to the value of reserves is 1.6% it was very low rate which indicates the value of loans provided by the WB to developing countries. Therefore, less their effective than lead to a lack of impact on increasing the value of international reserves of hard currency and not suited to the circumstances and the needs of these countries.

**Third;** the contribution of WB operations in meets the BoP deficit:

It is known that the problem of the BoP deficit is one of the problems that face the developing countries (balance of payments deficit means increasing the value of imports needed by the national economy - during the specified period of time - that can be obtained from the FE and exports of goods and services during this period ). This difference should be financed through external borrowing.

Table (6) the value of the World Bank to the imports from 2000 to 2010

countries	Operation value (million \$)	Average of the operation per year (million \$) (A)	The value of the imports (2010) (million \$) (B)	Ratio of (A,B)
Total of the developing countries	248,386	24,836.6	2,002	1.24%

Source: - The data was extracted from the World Bank bulletin.

From the table (6) we observe that the percentage of the value of the WB of imports is very low, which proves ineffective in meet the BoP deficits in developing countries, where the rate did not exceed the average value of the operations to the value of imports 1.24% and it is not suited to the circumstances and needs of these countries or with the WB. Also, this ratio makes the value of the WB has no effect to reducing the deficit in the BoP in developing countries.

**Fourth;** the proportion of the value of the WB to the foreign debt:

The external debt is the biggest problems facing developing countries, which was and still one of the most complex issues in international economic relations. In addition, it has had the effect on the opportunity provided to grand colonial countries and institutions international funding to intervene in the internal affairs and threaten the economic independence of developing countries.

Table (7) the ratio of the World Bank to the external debt in developing countries from 2000 to 2010

countries	Operation value (million \$)	Average of the operation per year (million \$) (A)	The value of the imports (2010) (million \$) (B)	Ratio of (A,B)
Total of the developing countries	248,386	24,836.6	3,104.6	0.8%

Source: - The data was extracted from the World Bank bulletin.

From the analysis of the table (7) the percentage of the average value of loans granted by the WB to developing countries was very low where it did not exceed 0.8%. It shows that the rate of those loans is ineffective to reduce the value of the external debts in these countries, which confirms the need of those countries to depend on developing economic plans medium and long-term to solve their problems in external debts without relying on financing the WB.

**Fifth;** the performance evaluate of the World Bank:

Through previous tables we can draw the following table which outlines the total percentages prior to the participation of WB loans granted to developing countries.

Table (8) different ratio of the World Bank during (2000-2010)

Statements	Percentages
The ratio of the value of World Bank operations in different areas to GDP from 2000 to 2010	0.33%
The ratio of World Bank loans to international reserves in developing countries from 2000 to 2010	1.6%
The value of the World Bank to the imports from 2000 to 2010	1.24%
The ratio of the World Bank to the external debt in developing countries from 2000 to 2010	0.8%

Source: - The table prepared by the author.

If we look at the table we find that the WB provides loans to developing countries is not to achieve the economic growth of these countries as stated objectives of the bank, but to serve the interests of the dominant countries and to serve the higher interests of global capital. So, it is not funding the major industrial projects that needed by developing countries for growth because it is worried to damage the interests of developed countries. When the ratio of the WB to GDP is (0.33%) in this case the developing countries should not rely on the institution to achieve the real economic growth.

Also, when we find that the percentage of WB operations to the value of reserves is (1.6%) we conclude that the WB is not contribute to providing foreign exchange, which suit with plans of developing countries. Next, we find that the ratio of the World Bank to developing countries imports amounted to (1.24%) this is not contributed to reduce the rates of the BoP deficit in those countries. Those countries should work and prepare plans and programs to reduce external debt, and maximize their value of exports from goods and services. Finally, the percentage of WB operations to total foreign loans to developing countries reached (0.8%) we see that most of these countries depend on foreign loans in accordance with bilateral or multilateral agreements.

## **Part two: Trends and effects of World Bank programs in Egypt:**

**First;** the economic situation in Egypt:

The all politicians and citizens consider that job creation is the biggest economic challenges facing the countries in the Middle East and North Africa in general and in particular Egypt. There are rates of unemployment and work force in the same time, which requires the development of economic policies to stimulate the growth that led by private sector in the non-oil economic sectors. The main challenge to the governments is how to treat with this challenge. So, the countries should strong their capacity to compete on the international level and encourage more private sector investment (domestic and foreign) through long term policies and reforms structural to improve the investment and achieve integration with the global trade. <sup>(1)</sup>

The economic situation in Egypt characterized by increase in the interventions and government regulations. There are many sectors affected by some of the outstanding problems and prevent their ability to achieve their goal. Despite, the policies common in some areas such as regulation of the labour activities, land markets and oriented development strategies since the early of eighties. The most of the sectors started to reforms of structural and other relevant trade that led the first generation of reforms in Egypt to improve Egyptian economy and reduce price distortions, trade and stabilize the economy, but it proved inadequate to encourage the investment to reduce the unemployment. The amendment of the World Bank's role was available to contribute to overcome these difficulties, whether it's soft loans or by inject money into the economy or follow some policies that are recommended by the WB to the Egyptian government, which is a prerequisite and important before it assists loans to the necessary projects and reduce unemployment that reached high numbers in some cases. Also, it became a threat to social cohesion in Egypt and raised a lot of social speculation which manifested in the revolution that toppled the Egyptian president on February 11, 2011 after 18 days of public protests continued and took over the military responsibilities of leading the country in very difficult economic conditions. <sup>(2)</sup>

So, the economic and social impacts broader of these events that took place in Egypt that will not be clear only after several months from now. The slowdown of the global economic has affected the growth of real GDP in Egypt, assets of public finances, the levels of poverty, high unemployment rate to 9.4% and decline the capital inflows (direct foreign investments), which decreased by 39%. The Egyptian government has a plan how to treat with the crisis, which include financial and monetary measures to provide direct support.

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(1) Journal of Banking Services, Cairo, Agricultural Development Bank, Issue 42.2004, p. 13

(2) Public Administration and Investment Management and Planning. The Ministry of Agriculture Publish and Land Reclamation in Egypt, Cairo, 2008, p. 50

These measures came in the form of additional expenditure including increased the support and social benefits on the monetary side. The central bank in Egypt reduced the interest rates which lead to recover of economic growth and grow the GDP by 5.3% in 2010, up from 4.7% in 2009 (but still below the average achieved in 2006-2008), <sup>(1)</sup> which praises by some of the Egyptian analysts that the World Bank's role was very clear to supporting the projects during those years.

The WB has provided \$ 800 million went to the fields such as health, education and the fight against poverty. There are many economists analysts follow the economic situation in Egypt and they believe that the real interest of the total activities of the World Bank in Egypt remain below the level required because of the minor and its directed, where not being pumped in the Egyptian economy in the required way. Despite, that the recoveries in sectors such as construction, tourism, communications to decline the unemployment rate was slow and questioned by many analysts in the World Bank's role if we look at the period that preceded the events of Egypt (with the economic dimension) during the past two decades have improved the social conditions in Egypt. The evaluation report of the WB about its role in Egypt have decreased rates of infant mortality and malnutrition among children under five by half, the average life expectancy of 64 to 71 years, improved the economic conditions and living standards for the majority of the population though to varying degrees. However, there are 18% of Egypt's population still live below the poverty line by the World Bank recognize, this figure increases to 40% in Egypt, and there are 20% of the population suffered from poverty over the past decade (2000 - 2010).

In fact, the Egyptian economy and the role of the WB did not succeed to reaching the disadvantaged class recognized by the WB itself. According to the latest report of the WB about the economic situation in Egypt has lost some of the gains made in the past decade because of rising food prices in 2008, fuel prices and a slowdown in economic activity associated with the global crisis. The decline in lending by the WB or slow down at least added to the Suez Canal revenues as well as the decline in tourism revenue and closure of the stock markets for a long time effect on economic situation. The WB experts say that increase the price of the rates of maturity in Egypt (according to the WB) is the largest importer of wheat in the world. The Egyptian finance minister has pointed out as a result of the disturbances that taking place in Egypt the rate of GDP has decreased to 4% after it was 5.1% in the end of 2010.<sup>(2)</sup>

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(1) Public Administration and Investment Management and Planning. The Ministry of Agriculture Publish and Land Reclamation in Egypt, Cairo, 2008, p. 51

(2) Indicators of Economic and Social Performance according to World Bank programs during the first quarter, The Ministry of Economic Development, Cairo, 2008, p. 23

**Second;** the priority areas of reforms to improve the private sector development in Egypt:

There seems to be common features between the structural issues fundamental that benefit to grow of the private sector institutions and investment opportunities. Based on the analytical work the objectives that were hanging on some infrastructure projects implemented by the WB were not reducing the unemployment in Egypt. The Egyptian government works to encourage growth that led by private sector through an increased focus on the second generation of the recipes provided by the WB in this area as well as setting the pace of reforms and the chronological order. So, as a result of all this the private sector in Egypt is still in small size and it is concentrated in a small number of large companies that benefit from the protectionist policies which take their own interests before the interests of the country that they invest in. In addition, there are large number of small and medium-size of the businesses enterprises which often absorb a large part of employment, but its capacity to funding regular markets and programs support is limited and that is consider as decline in the bank's role in this kind of projects.

The protectionist policies means that the private sector in Egypt is facing difficulties in competing on the international level because of that the Egyptian governments cooperate with the WB to supporting some of the activities which related to specific regions like Al-Saied in Egypt consider as one of the poorest areas in Egypt. The WB estimated in his report that 40% of its population living below the poverty line compared to other Egyptian areas. These programs provided by the bank do not focus mostly on helping these areas as a result of a number of factors notably; the size of these loans, its benefits and low its capacity because of the populations.

The first intervention took place during 1990s and led to a number of economic reforms in economic sector. Since the beginning of the 1990s, a special attention was paid to poverty alleviation and poverty reduction programs. Food supply was aimed to support people in Upper Egypt and reduce financial burden placed on the Egyptian government. The reforms of this period were called Economic Reforms and Structural Adjustment Program (ERSAP) (The World Bank Report: Egypt, 2011). ERSAP program had three main stages (stabilization, structural adjustment and social changes). The inability to produce an educated, trained employees capable of shaping both a modern society and a responsive government persisted in Egypt well into the 1990s, even after a decade of vigorous programs offering technical assistance from foreign-aid agencies. The WB interventions were successful involving poor people in labor force (in both agricultural and industrial sectors) (Clark, 2002; Average population growth rate, 2005). Thus it was natural that the most serious problem facing post-independence Egypt was the virtual nonexistence of an educated and trained labor force. The indigenous population had practically no access to education or public health services. All forms of middle and secondary education, as well as technical training, were not supported to Egyptians, a situation leaving the country ill-equipped (The World Bank Report: Egypt, 2011). In order to reduce unemployment rates, the WB invested in education programs using a

‘cluster’ approach. This approach supported children from childhood years till their adulthood, and was aimed to create a social class of well-trained workers and farmers around the country. The most successful were the Education Enhancement Program and the Early Childhood Education Program which involved the government, communities and parents (Sachs, 2005; Toussaint, 2007). New medical institutions were established around the country with well-qualified medical staff and innovative equipment supplied by the WB.

**Third;** encourage the investment in Egypt:

To attract more investors to the agricultural sector that encourage by the World Bank has granted more investment incentives and economic reform program. Then, issued the laws that entered in the field of investment, which was a state monopoly in the past and give the full security to the private investor to start as a condition of the international economic institutions such as the WTO, the WB and the IMF these laws are:

1. Law No. 143 is for the agricultural sector and the ministry of agriculture says that principal bank for agriculture development which is responsible on agricultural finance and common with the WB to providing some loans that have related to promoting cooperatives of small and medium enterprises.
2. Law No. 230 of 1986 and it calls investment law, it provides for the exemption of agricultural projects from taxes for ten years and the freedom of pricing of the agricultural products. In addition, it is reducing customs on agricultural machinery so as not exceed 5%.
3. Law No. 8 of 1997 it has related with investment guarantees which may not be nationalized companies, foundations or confiscation or seizure of the funds and this applies to all companies operating in the fields of reclamation and cultivation of wasteland or desert. The WB provides loans during 2001-2009 the total amount is U.S. \$ 480 million, which called encouraging the production of animals, poultry, fishing and transport of refrigerated goods and refrigerators agricultural crops.<sup>(1)</sup>

Table (9) explains the strategic plan of the World Bank for horizontal expansion during 1997-2017

<b>Areas</b>	<b>Area in thousands acres</b>	<b>Important ratio</b>
Parties to the Nile valley	1,300	38%
The northern coast	300	9%
Shores of Lake Nasser	100	3%
Sinai Peninsula	600	18%
New Valley oases	600	17%
Toshka area	450	16%
<b>Total</b>	<b>3,350</b>	<b>100%</b>

Source: Ministry of Agriculture and Agricultural Reclamation; the Agricultural Investment Office

(1) Indicators of Economic and Social Performance according to World Bank programs during the first quarter, source already mentioned, p. 40-42

The table (9) illustrate that the economic planners may were in right way as they allocated 9% to the coast north, although tourism plans capable to achieve adequate growth. Despite, allocated only 3% to the shores of Lake Nasser and 16% only for the Toshka area. Also, they allocated the rest to other areas as they showed in the table above and those areas have right to direct investments with the WB because of their distinctive economic return.

There are many areas of the WB investments in Egypt such as agriculture reclamation, construction of infrastructure and public facilities especially in areas that contain extreme poverty. The state in this regard cooperate and coordinate with the orientations of the World Bank and respond to all conditions which sometimes lead to criticize the Egyptians economic analysts and claim the WB that during the recent eight years it has contributed to the increase in small projects as well as the reclaimed land by encouraging the government to provide small projects. The World Bank has different economic policy in Egypt and it played an important role, but there are no significant benefits with respect to its goals in Egypt.

**Fourth;** evaluate the results of the World Bank in Egypt:

Evaluation of current activities in Egypt and the World Bank's efforts in promoting agriculture: -

The WB rely in its policies to advance of the Egyptian economy to promote the agriculture, health and education because of the contribution of the agricultural sector in the local production is real indicator of the revival of the economic situation in Egypt. Before the intervention of the WB the average of GDP was 16.2% and this value decreased to 14% in the last two decades in the early third millennium (2002). Also, it can accommodate nearly 27% of the total workforce in different sectors, which pushed many economic analysts who familiar with affairs of Egypt to say that all the reforms structural contributed by the WB did not check much to the Egyptian citizen, but some of them say that those loans are often set up another burden added to the problems that facing the Egyptian economy. <sup>(1)</sup>

**Fifth;** the role of economic liberalization policies that were a requirement of the WB and its impact on the Egyptian economy:

To indicate what happen with the Egyptian economy and show the weakness of the cooperation with the international economic institutions especially after economic liberalization policies. For example, the developments of agricultural investment in Egypt in the fifth previous five-year plan and first year in the sixth of the five-year plan.

The agriculture and industry sectors have the largest share (especially agriculture sector) of the total WB assistance, but that did not prevent the inactivity during the last twenty years and given the size of loans from the WB to the agriculture sector through the first four plans where it amounted 42.5007 billion pounds. Which is substantial increase compared to third of five-year plan, but then it decreased to 27.2117 billion pounds in the fifth five year plan.

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(1) Nabil Fathi Sayed Kandil, Agricultural Investment in Egypt, Al Fakher Publish Center, Cairo, 2003, p. 48

If we look at the fifth five year plan we find decrease the rate of contribution of agricultural loans to the total domestic investment from 9.4% in 2003 to 4% in 2008, which indicates the extent of the decline in the activities of those policies or a misunderstanding by the experts or as some people consider a failure in the World Bank's policies. <sup>(1)</sup> So, those can be observing through the table (10).

Table (10) shows the evolution of the relative share of the World Bank contribution in the agricultural sector during 2002-2008 (billion bounds)

Year	The share of loans	The share of loans to public investment	The share of loans to private investment	The percentages of loans to the total investment
2002-2003	9.4	9.3	9.4	50.2%
2003-2004	9.5	8.3	10.8	47.1%
2004-2005	7.6	6.3	9.1	42.7%
2005-2006	6.9	5.6	7.9	34.8%
2006-2007	5.0	4.1	5.5	31.2%
2007-2008	4.0	4.0	4.0	35.3%

Source: Report of the Egyptian Ministry of Local Development for the year 2009

Clearly, from the above table that the average contribution of loans granted by the WB to total investment (public and private) did not exceed 50.2% which means decrease the volume of investments in recent years. This is incompatible with the strategy and objectives of the bank that has stated as resulted in a low rate of agricultural exports and living standards of farmers. Then, make damage to the achievement of social and economic objectives, both for the agriculture sector or to the objectives of the national society. If we look at loans provided by the WB and parallel to the five-year plan that pursued by the Egyptian government estimated in that time by 5.8 billion pounds , and it represents only 4.7% of total loans provided to the service sector. The total of volume 180 billion pounds, which 6 billion pounds are contributed to private sector, rest for other local and international foundations.

**Sixth;** the determinants of the failure of the World Bank loans in the Egyptian agricultural sector:

The agriculture sector in Egypt received the priority by the World Bank on the pretext that it would reduce a large percentage of unemployment in the country, which reaches in some cities like Al-Saied in Egypt to 40% and 9% in other cities. So, all the ways and programs that used by the WB are failed and it did not achieve its goals. Perhaps, the first factor is due to the low amount of loans and misuses them. Economists and observers wonder about these reasons, which are: <sup>(2)</sup>

- 1- Widespread of corruption in the government sector.
- 2- The reluctance of many farmers to their work and they leave to other fields.
- 3- Unfair conditions of the WB.
- 4- Lack of interest by the state to cooperate in small and medium projects.

(1) Nahed Abdel-Latif, Evaluation of Investment Policy and Finance in Egypt "Determinants and Solutions," Gospels Center for Printing and Publishing, 2007, p. 202

(2) Economic Report of the World Bank in year 2008, p. 15

However, the WB provides aid focused on health, education, supervision and contribute to the completion of some infrastructure projects and these contributions estimated outside of the other sectors about 5.8 billion pounds and directed to the literacy, health, small businesses and tourism.

Due to the primitive nature of local agriculture, yields were low or high in accordance with rainfall and land fertility. The efficient and technically advanced agriculture was more successful but at the expense of Egyptian water and soil resources. Furthermore, not only were the new methods environmentally destructive and thus shortsighted; they were also unprofitable: New agriculture in Egypt depended for its existence on generous subsidies from Europe, which could have been withdrawn at any time. The new independence economy had to rely on foreign subsidies to make up for its deficits. Critics state that the migration of 26 000 families to agricultural regions had a direct result on further interventions and infrastructure development (Cochrane and Massiah, 2001; TRADE POLICY REVIEWS, 1999).

The WB placed emphasis on the implementation of programs dealing with public works and more efficient agricultural development. The greatest problem which existed then, and which still persists today, is the attitude of most people toward foreign interventions. The WB hoped that by increasing productivity, the agricultural sector, which employs the most people, would also prosper. The majority of experts believed that it would be far more advisable to teach population to be productive at their customary work than to teach them anything new. Still, economic reality was stark, the room for maneuvering limited (EGYPT: Economic Policy Analysis, 2004). The new program, the Social Relief Program (SRP) worsened the situation for poor and those who could not participate in labor market. The most known projects by the WB are the Airport Development and Industrial Pollution Abatement (Egypt Fact Book, 2006; EGYPT: Media coverage, 2006).

Since 2000, the WB invested in education and healthcare facilities, human right protection policy and poverty reduction policies. Since no viable governmental institutions had by then been developed, Egypt relied on the "goodwill" of neighbors, world powers, and the international community in general. As the majority of funding for internal development came from outside Egypt, by the time oil was discovered in marketable quantities, the country was in a far better position than it had been a decade earlier. That was the result, in part, of the uncontrolled manner in which new funds entered the economy: the natural progression of development from agriculture to industry to services was skewed. What resulted in Egypt was precisely the reverse, a tremendous growth in the nonproductive service sector at the expense of the other two. The whole economy was suddenly geared towards providing ancillary services to the foreign-owned sectors (Louis *et al*, 2006; "Egypt surplus ..." 2005).

In June 2005, a new strategy was introduced in Egypt. A so called Country Assistance Strategy was aimed to attract new investments to the country and support financial and economic reforms. According to the World's bank report: "the current CAS is aimed at supporting three key development objectives – enhancing the provision of public services, and promoting equity. To achieve these objectives, the strategy proposes a "results-based" financial assistance program in the range of about \$2-2.8 billion dollars in support"(The World Bank Report: Egypt, 2011).

Channels of distribution vary greatly because of different types of production and location. Egypt experiences boom in retailing industry because of multinational penetration of the local retail industry. The majority of retailers are small or middle-sized operating on limited geographical area. FDI have forced development of chain and department store around the country. In general, there are about 2 million middle size retailers in Egypt. For instance, "the nation's 65,519 family-run shops and 14,562 koushks have slowly lost 2.8 percentage points in market share over the past three years as they fell from 92.2% of sales in 2001 to 89.4% last year" while number of chain and department stores increases greatly. Hypermarkets have more than doubled their shares from a paltry 0.33% in 1999 to 0.75% in 2004" (Whitfield, 2005). Today, the main method of operations is real time retail. So, economic data shows that Egypt proposes opportunities for the new investments having low but stable economic growth rate, developed transportation and retail infrastructure which allow to reduce costs of products to the end consumers (McKibben, 2007; Science and Technology: Egypt, 2005). According to statistical results (2005), in Egypt, GNP (purchasing power parity) is \$337.9 billion; GDP - real growth rate - 4.5%; GDP - per capita - \$4,400 (Egypt. Fact Book. 2006). It has raising wages and high rates of literacy and advanced education but significantly low wage costs than the advanced counties. In Egypt, in agriculture involved 32% of labor force, in industry 17%, and in services sector 51%. Household income is from 4.4% (lowest) to 25% (highest). Distribution of family income is about 34.4 (2001) (Egypt. Fact Book. 2006). Hence, it would be expected to result in a rise in the Gross Domestic Product (GDP). However, when considering the impact on the standard of living the economists have to look at the movement of GDP on a per capita basis. There is a well-developed infrastructure of transportation in Egypt. The county has 87 airports and 5,063 km of railroads. 64,000 km of roadways (paved: 49,984 km, unpaved: 14,016 km). Egypt is one of the countries with water infrastructure which allows saving costs of transportation and time. In Egypt there are 3,500 km of waterways. Navigated rivers include Nile River, Lake Nasser, Alexandria-Cairo Waterway, and numerous smaller canals in delta; Suez Canal (193.5 km including approaches) navigable by oceangoing vessels drawing up to 17.68 m (2004) (Egypt. Fact Book. 2006). Air and water transportation are the most popular ways to deliver products and goods to end consumers. The main ports and terminals in Egypt are Alexandria, Damietta, El Dekheila, Port Said, Suez, Zeit. Development and modernisation of the infrastructure used to enhance the competitiveness of the regions (Toussaint, 2007).

The studies that were approved by the WB are as following:

1 - The goal of achieving self-sufficiency in agriculture or at least the basic food commodities especially in the continued increase of the population, and the global food crisis that caused by the use of biofuels. With the knowledge that the loans provided by the concerned authorities of the bank to achieve this goal is estimated about 186 billion the WB did not provide only 23% in the last five years. So, when the value of the food gap get increase which lead to reduce the provided loans.

2- The goal of increasing annual growth rate of agricultural output which is 3.3% during the plan (2001-2002) and (2006-2008) up to 3.6% in 2007/2008 and hoped that up to 3.9% at the end of the current plan (2011-2012) and this requires increase the area of loans.

3 - The goal of improving the lives of rural people as they are less fortunate in living conditions. Therefore, should be directed to them development efforts, especially as the agricultural sector absorbs a large proportion of these, both agriculture activities, service, and all new jobs require a parallel on the part of funders. So, the advancement of the living conditions of the majority of the population linked to a strong and direct efficiency of programs particularly in agriculture, which indicated by the annual report of the WB in 2008 «Agriculture for Development». <sup>(1)</sup>

4 - The goal of facing many problems in most economic sectors, especially from agriculture, such as the development of the irrigation system to meet the scarcity of water increased, the rationalization of water use efficiency, vertical and horizontal expansion to increase production and productivity, develop the infrastructure of the agricultural sector and the promotion of the services sector.

**Seventh;** the reasons for the failure of the World Bank contributions in the Egyptian agricultural sector:

The economic activity consider as agricultural activities that is not attracting the FI compared to the rest of other activities such as industry and trade, which lead the WB contribute to be only ones in this area. So, there are a variety of reasons including: <sup>(2)</sup>

**A.** The nature and characteristics of the agricultural sector as characterized by high element of risk, which limits the chances to attract the investors.

**B.** The magnitude of the volume of investments required for land reclamation

**C.** The length of the investment needed to reach the marginal return in the case of reclamation projects

**D.** The negative effects of the new agricultural rent law, which increased the rental value and reflecting on the high cost of production.

**E.** The conflict between some of the decisions and the instability of the economic policies of the state.

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(1) The annual report of the World Bank "Agriculture for Development," 2008, p.18

(2) Egyptian Agriculture and the World Bank, a series of planning and development issues, Institute of National Planning, Cairo, 1998, p. 122.

All this make the bank's efforts are not sufficient to make results recorded in this vital field, or related fields. Perhaps, this is what the WB report showed in 2008 for agricultural activity in Egypt, which it recognizes the obstacles previous that faced the bank and urged it that should be some adapted between the foreign loans in this field and loans in other fields. So, it can be detected through the following table:

Table (11) the loans for agriculture sector and other sectors during (2001-2007) (millions \$)

Years	Loans for agriculture sector	Loans for other sectors	The relative importance of agriculture loans
2001	62.5	1,398	4.5%
2002	65.7	1,121	5.8%
2003	51.9	762.4	6.8%
2004	56.5	1,325.4	4.3%
2005	11.1	807.4	1.4%
2006	—	552.7	—
2007	140.8	1,319.4	10.7%
<b>Average</b>	<b>47.7</b>	<b>1,000.3</b>	<b>4.8%</b>

Source: The World Bank's report in 2008

The table (No. 11) illustrate that the loans granted rose, but it soon dropped for reasons of the financial crisis in 2008. This fluctuate was effect on the people feeling and disappointed with the citizen target and make them sometimes to leave the field, which they were hoping to improve their level of living, especially if they heavier shouldered debt that may be moving to make it illegal. Sometimes customers are unable to pay back because of some reasons such as: <sup>(1)</sup>

- Increase the lending rate.
- The use of loans in not right way and the government attempt to treat with this problem that it has issued some laws.

Perhaps the dependence of the cooperatives to fund their activities through cooperative funds is the biggest indicator of the failure of the WB in this area. It is not an example of our dependence on the agricultural sector only that it can be taking at each other sectors which intervene by the World Bank in Egypt. Where it is noticed that everything was obtained by other sectors has fluctuated in subsequent years and it did not rise more than which was provided in 2001, but it declined in some years.

Table (12) the proportion of the Egypt in the cumulative activity of the World Bank

World Bank loans for development and reconstruction		World Bank loans for the development		Total		Total granted to all beneficiary countries		The percentage of Egypt's share in the cumulative activity	
Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
65	4,559.9	41	1,984.0	106	6,543.9	8,310	525,059.0	1,3	1.2

Source: the World Bank annual report 2003, volume 2, IBRD/IDA Appendixes. Appendix 9 (pp.143.146)

(1) Mohamed Abdel-Fadil. The Oil Effect on Arab Unity and Arab Relations, The National Center for Printing and Publishing, 2006, p. 29

To know the Egyptian's share of the cumulative activity in the WB lending in all activities those have been showed in the above table, which was presented by the WB as described by source. Clearly, the Egyptian's share was very low percentage in the activity cumulative to the WB as it is subject to income criterion as a basis to take advantage, but is the WB focuses on the income criterion as a basis for benefit without regard to any other political or regional criterion?

Clearly during the research and induction that there were always factors of political pressure and regional trends affecting the decisions if there are direct grant or not. <sup>(1)</sup> As adopted by major countries to withhold credit for the Middle East and North Africa that in need to large amounts of money from the bank for the development process, and this has been shown now after the revolution of Egypt in terms of Egypt's rejection of loans ranging 3 billion U.S \$ by the WB (as published Ahram economic in edition issued on (28/06/2011) as an attempt to influence the gains of the revolution and to try to reduce the proportion of external debt. Indicators of Egypt's commitment to meeting its obligations to the WB,

Table (13) the net financial flows in the World Bank (At current prices of U.S. \$)

Years	Values
2000	-80,540,000
2001	-55,059,000
2002	-46,594,000
2003	-47,977,000
2004	-51,783,000
2005	19,795,000
2006	41,975,000
2007	626,045,000
2008	65,422,000
2009	595,397,000

Source: Bulletin of the World Bank in (2010)

The above table represents the net financial flows received by the borrower during the year, a payment of loans and credits minus the instalments of the loan. By analysis and extrapolate of the previous table we found the following: -

- There was great Impede in meet during the years 2000-2004
- Relative commitment began in 2005-2006
- 2007 it is representing as the best economically year in Egypt where it was able to achieve the economic boom in obligation to meet the WB.
- There has been a decline in the year 2008 as a result beginnings of the global crisis.
- Also, in 2009 it is starting distinctive increase despite the lack of decline in the global financial crisis.

(1) Mohammed Abdul Aziz Mohammed, The Finance role to the IMF and the World Bank, source already mentioned p. 379-387.

From previous there are no plans that are transparent, but there was a financial and administrative corruption is going on the Egyptian society. Then, any reader in the pages of community economic Egyptian finds that almost of funding goes to different projects and structures than those which advertised. This is what the judicial investigations about financial corruption at the moment. So, this is what justifies the lack of growth in numbers of funding by the WB and not to mention the methods of political pressure. The most of the researchers in this area said if there is no increase in the rates of growth of Egyptian tourism, oil and mining, occurred economic disaster of the global financial crisis, although the role of the World Bank's efforts in that phase.

**Eighth;** The World Bank's strategy after the revolution in Egypt:

With political and economic changes that are reshaping the region, will increase support for the WB. The strategy will include the WB and its assistance on a variety of activities and services including the following:

- Links support of the budget to meet the funding needs for growth.
- Rapid response in the field of investment to support the actions needed to combat poverty.
- Assistance to create employment opportunities and programs.
- Advisory services.
- strengthening the institutional capacity.
- Provide free-work projects and other training programs.

To ensure the sustainability of a smooth transition in Egypt, it will be necessary to strengthen the framework of good governance in the region (transparency, accountability, and social justice), and encourage the growth that is inclusive. Also, consolidate the foundations of social protection, sustainable, help to reduce the fluctuation of food prices, supporting global economic integration, regional levels and focus the WB group's strategy of long-term interest in these areas. The WB has done analytical work on the task of Egypt in 2011, particularly with regard to issues of economic governance and social security. The bank provides technical and financial assistance to Egypt to support from the effects of political changes that have passed since the beginning of this year. Include projects for fiscal year 2011 on the generation of electricity station south of Helwan at cost 385 million U. S \$ to increase the energy and to improve the regulatory environment, and the railway project at cost 330 million U.S \$, and the integrated infrastructure for sanitation at a cost of 200 million U.S \$, and the irrigation project at the farm level at cost 100 million U.S \$.

Finally, the goals both those drawn by the WB or those expected from the Egyptian government had achieved only little of them according to consensus of all analysts, whether Egyptians or the WB experts, who have demonstrated in their reports of resentment at the worsening situation economic development in this country which has a high proportion of the population increase is not commensurate with the level of development. The investment in education allowed Egyptian government attract more investors and create new workplaces. Through a foreign

market location firms are able to raise confidence about their ability to deliver and service products. Developments in science and technology allow Egypt to compete on the global market. Most of the inward investment centered on co-production activities however, where control was held by the state. Economic growth of the country is depended upon both the quantity and the quality of factors of production. Rapid population growth raises total factor inputs by increasing the supply of labour. In a competitive market, reductions in the marginal product of labour will tend to lower the rewards to labour. In other words rapid growth in population leads to a cut in wage rates. On the other hand, cities also harbor major potentials for development. The concentration of the population makes it possible to provide the necessary infrastructure at a lower cost in most cases. This in turn makes it easier to meet the people's basic needs, which benefits the poor in particular. Will the revolution improve the economic conditions of the Egyptians?

## **Conclusion and Recommendations:**

### **First; Conclusion:**

From the above researcher concludes the following: -

The inadequacy of the bank's role in funding the needs of the developing countries in terms of external financing, especially the needs of these countries increase from year to year. Influence of the World Bank's policy by considerations, factors and political positions of the major capitalist countries with the lenders. Then, shame on the institutions of this funding limited resource due to the expansion of poor countries that are in need of more soft loans and subsidies in various fields of development. Next, the World Bank's reluctance to provide assistance with respect to the industrial area, which raises many doubts about the sincerity of its intention in creating these countries to be in the future industrial countries like those in the developed world. Also, lack of the democracy in the voting system, which adversely affect the decision of the WB and its related with economic and social development in developing countries. Moreover, the WB contributes little to help developing countries and deal with their problems of development, and that percentage is not effective at all. Finally, the World Bank did not achieve the goals that it established for to assisting developing countries. The goals both those drawn by the WB or those expected from the Egyptian government had achieved only little of them according to consensus of all analysts, whether Egyptians or the WB experts, who have demonstrated in their reports of resentment at the worsening situation economic development in Egypt which has a high proportion of the population increase is not commensurate with the level of development.

### **Second; Recommendations:**

After extensive theoretical study of the WB and take Egypt as case study, the researcher recommended the following: -

- 1 - The need to develop methods for granting loans in general and especially developing countries, commensurate with the circumstances of each individual country in order to achieve the desired goals and declared by the WB.
- 2 - The WB and its funding group should support the major industrial projects needed by Egypt and other developing countries for real growth.
- 3 - The work of the WB should be free of any adopted policy considerations, which we have seen it affect significantly the operations of the WB.
- 4 - The need to democratize decisions of the WB and it is not affected to the major countries in order to achieve their economic and political goals.
- 5 - The WB has to interest in the habits and traditions in Egypt and other developing countries.
- 6 - The need to provide technical assistance to developing countries so it can put the necessary plans.
- 7 - The WB has to treat with corruption societies in developing countries in order to achieve tangible progress to loans granted by the WB.

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