Developing Countries Lending Criteria

When extending new loans and other credit commitments to and in developing countries, the bank considers not only a client's capacity and willingness to repay, as agreed, but also:

- Social policy
- The purpose of the transaction
- The impact on the local population

Taking Social Policy into Account

The bank takes social policy into account when making lending decisions. To do so is responsible behavior, and responsible behavior on the bank's part, as well as that of its clients, promotes stability and prosperity. Thus, over time, social responsibility and credit considerations tend to converge.

The bank favors the stability and prosperity that arise from political and economic democracy, and political and economic systems, in which participation is widespread, rather than limited to a privileged few. Nonetheless, in a world of diverse circumstances and cultures, many countries follow political and economic models that differ from those to which the United States adheres.

Lending for Productive Purposes

When lending to clients in developing countries, associates are directed to adhere to the bank's principle (as set out below) regarding the purpose of the underlying transaction, and be alert to and carefully analyze the risks posed in some countries by inefficiency or corruption, or both.

Principle Regarding Purpose of the Transaction

One of the most important activities the bank undertakes is lending to enterprises for producing and improving products and offering services that enable communities to prosper. To that end, the bank encourages providing credit facilities to creditworthy clients for these productive purposes. Credits are generally discouraged if they do not help the bank's clients create value but, instead, merely facilitate transferring assets from one entity to another or allow a client to engage in speculation.

The bank recognizes that this is a broad principle rather than a specific rule with clear boundaries. Moreover, the bank's willingness to enter into individual transactions varies from time to time depending on the availability of resources and its global strategy. That being said, this broad principle always applies.

Considering the Impact on the Local Population

When deciding whether to make loans or extend credit to clients in developing countries, associates are directed to carefully weigh the impact of the credit decision on the residents of the country. Factors considered include the transaction's effect on:

- The environmen the structure of culture and society, political systems (with special regard for the development of democracy or other systems which foster civil liberties and widespread participation in the political process);
- Public health;
- Economics and standards of living (including the development of economic democracy); and
- The government's human rights record and policies.
- These considerations are not just social policy concerns, they are also credit concerns. If a transaction would adversely impact any of the items listed above, that negative impact would be considered a serious negative consideration against approval. Other normal factors are also taken into account, including both credit and policy considerations.

Negotiating with Heavily-Indebted Poor Countries

The bank recognizes that economic development necessarily entails social as well as monetary costs, and acknowledges that the governments involved are properly the prime decisionmakers in such processes. By its actions, the bank has already joined and intends to continue to join with other lenders, both public and private, to negotiate with heavily indebted poor countries (HIPCs) in an effort to achieve the best possible outcome of economic, political and social stability.

In those negotiations, the following criteria are given significant weight:

- Total External Debt. In cases where total external debt is at such a level that debt service cannot be sustained without placing an undue burden on the country's residents, additional considerations apply. Generally, economic concessions should be agreed to as part of an overall economic program involving all creditors including multilateral agencies (e.g. the IMF, World Bank and regional development banks), individual governments, and private creditors, (such as banks) aimed at making a substantial and positive economic impact. Such concessions are typically arrived at by negotiation, rather than repudiation or imposition of terms by the debtor or unilateral forgiveness by the creditor.
- Political and Economic Reforms. The HIPC should have implemented and evidenced an intention to continue a program of sound political and economic

reforms to ensure that the benefits of any concessions its creditors make will not be lost to local inefficiency or corruption. Such reforms should not unduly burden the country's poorest segment.

- Impact on the Local Population. Action by an HIPC to make strides in the six areas listed above, under Considering the Impact on the Local Population, weighs as a significant positive factor. Conversely, shortfalls in those areas weigh as a significant negative factor.

- Role of the Government. In making these decisions, associates are directed to also be conscious of the primary role to be played by the recognized governments of the countries concerned, and the legitimate sensitivity of the governments and people of those countries, with interference in their domestic affairs by other countries' governments and financial institutions. Each case is evaluated individually.

  The criteria outlined above are not absolute and inflexible rules; instead, they are an indication of the spirit in which the bank's management intends these decisions to be made. These decisions must balance a variety of factors to advance the interests of all our constituencies' shareholders, associates, customers and the communities the bank serves.

Information on which to Base Judgments

When forming an opinion on local economies or social conditions, associates routinely gather information from observers on the ground, including local businesspeople, bankers and economists, as well as the U.S. Embassy and the host country's central bank.

Non-Governmental Organizations

When gathering data to assess the risk inherent in doing business in a particular location, or with a particular client or project, associates are directed to also take into account information developed by reputable non-governmental organizations (NGOs). There are literally thousands of NGOs, many of which are dedicated to observing and reporting on a wide range of issues, such as environmental standards, democratic practices, principles of sustainable development, decent working conditions and the like. The views of credible, reliable NGOs can provide another perspective on the local economy and may be useful when assessing the likelihood of local opposition to a particular undertaking. Whether an NGO's opinion should influence individual credit decisions is a matter of judgment.