



V-LRN

VIRTUAL LEARNING NETWORK

International Business Environment

Block-3 Unit – 13

International Financial Institutions

Virtual Learning Network



Topics to be Covered

- Introduction
- International Monetary Fund
- World Bank
- International Finance Corporation
- International Development Association
- Regional Development banks
- Summary

Introduction

Rehabilitation of world economy was the major concern of the international community

As a result of war, the entire scenario of the world payments mechanism had shattered.

To restore the international institutions that were needed to restore economic stability and growth in the world trade.

The International Monetary Fund(IMF), and the International Bank for reconstruction & development known as World Bank were set up in 1945.



International Monetary Fund (IMF)

- It also offers financial and technical assistance to its members, making it an international lender.
- It oversees the global financial system with an impact on exchange rates and the balance of payments.
- It is an organization formed to stabilize international exchange rates and facilitate development.
- IMF is an international organization

Objectives of IMF



To promote cooperation by providing the machinery for consultation and collaboration by members on International Monetary issues.



To facilitate the balanced growth of International trade



To promote exchange stability and facilitate the avoidance of competitive currency depreciation.

Functions of IMF



To formulate and administer a code of conduct regarding exchange rate policies and restrictions on payments for current account transactions.



To provide members with financial resources to enable them to observe the code of conduct while they were correcting or avoiding payment imbalances.



To provide a forum in which the IMF could consult with one another and collaborate on International Monetary matters.

Exchange Rate Policies

- Basic objective was avoiding troublesome fluctuations and rigidity that prevailed under the international gold standard.
- It may be recalled that fluctuation under the international gold standard,
- Automation of BOP adjustment mechanism called the Price Specific Flow Mechanism.



Bretton Wood System And Its Working

- It seemed clear at the Bretton Woods that neither a policy of fixed exchange rates nor of fully fluctuating rates is conducive to the balanced growth of international trade.
- The Fund was provided with financial resources to assist members in financing temporary deficits and in adapting policies of adjustment without their having recourse to measures inconsistent with their code of conduct.



The Current System of Exchange Rate Determination

- The current system is a hybrid
- Major currencies floating:
 - on a managed basis,
 - some currencies freely floating, and
 - other currencies moving in and out of various types of fixed exchange rate relationships.



Surveillance Over The Exchange Rate Policies

- Approved three principles to guide members:
 - “Responsibility of members to hold back from manipulating exchange rates to prevent BOP adjustments”
 - “To step in their exchange markets”
 - “Member should take into account the interests of other members”

Exchange Restrictions

- The Fund's principles with respect to exchange restrictions and multiple practices by members are intended to foster a multilateral system of payments for current transaction between members and to contribute to the balanced growth of world trade through elimination of restrictions.



Financial Resource and Policies

- The resources of the IMF come from two sources viz.
 - (i) Subscription by members
 - (ii) Borrowing
- According to IMF rules, each member is assigned a quota expressed in Special Drawing Rights (SDRs).
- The IMF is authorized to supplement its ordinary resources by borrowing from official entities as well as from private sources.
- Under the General Agreement to Borrow (GAB), IMF entered into an agreement, initially in 1962 and renewed, revised and enlarged from time to time.

Financial Assistance

- The financial operations and transactions of the Fund are carried out through the General Department and the SDR Department.
- The Fund provides BOP assistance by selling to members in exchange for their own currency, the currencies of other members SDR.
- The members to which the Fund sells currencies or SDRs are said to make 'purchases' from the Fund.



Financial Assistance (Contd.)

- Number of facilities under which the Fund provides financial assistance
 - Reserve Tranche Drawing
 - Credit Tranche Facilities
 - Extended Fund Facility
 - Buffer Stock Financing Facility
 - ESAF facilities for low income countries

Special Drawing Rights

A basket of major currencies

Used in international trade and finance.

Currencies in the basket are, by weight,

The United States dollar, the Euro, the Japanese yen, and the pound sterling.

The determination of the currencies in the SDR basket and

Their amounts is made by the IMF Executive Board every five years.

Purpose of SDR

SDRs are used as a unit of account by the IMF and several other international organizations.

SDRs were originally created to replace Gold and Silver in large international transactions.

"Paper Gold" is little more than an accounting transaction within a ledger of accounts

The World Bank

- Goals-
 - The Bank's initial goal was to assist in the reconstruction of post-war Europe.
 - Bank makes development loans to developing countries.
 - Goal is to reduce poverty by financing and assisting in numerous projects such as healthcare, education, infrastructure, communications, and other like projects.



'5' Key Factors of World Bank

- Build capacity
 - Strengthening governments and educating government officials.
- Infrastructure creation
 - Implementation of legal and judicial systems for the encouragement of business
- Development of Financial Systems
 - establishment of strong systems capable of supporting activities from micro credit to the financing of larger corporate ventures.



'5' Key Factors of World Bank (Contd.)

- **Combating corruption**
 - Support for countries' efforts at eliminating corruption.
- **Research, Consultancy and Training**
 - World Bank provides platform for research on development issues, consultancy and conduct training programs



The World Bank (Contd.)

- The **World Bank** is an international financial institution that provides financial and technical assistance to developing countries for development programs with the stated goal of reducing poverty.
 - International Bank for Reconstruction and Development
 - International Development Association
 - International Finance Corporation
 - Multilateral Investment Guarantee Agency
 - International Centre for Settlement of Investment Disputes

World Bank Group

International Bank
for Reconstruction
and Development
(IBRD) Est. 1946

aims to reduce
poverty in
middle-income
and poorer
countries by
promoting
sustainable
development

International
Development
Association (IDA)
Est. 1960,

Interest free
loans and
grants

International
Finance
Corporation (IFC)
Est. 1956

sustainable
economic
growth in
developing
countries by
financing
private sector
investment, and
providing
advisory
services to
businesses and
governments

World Bank Group (Contd.)

4. Multilateral
Investment Guarantee
Agency (MIGA)
Est. 1988

Promotes Foreign
Direct Investment
in developing
countries

5. International Centre
for Settlement of
Investment Disputes
(ICSID) Est. 1966

facilitate the
settlement of
investment
disputes between
governments and
foreign investors.

Structure of the World Bank

Headquartered in Washington D.C.

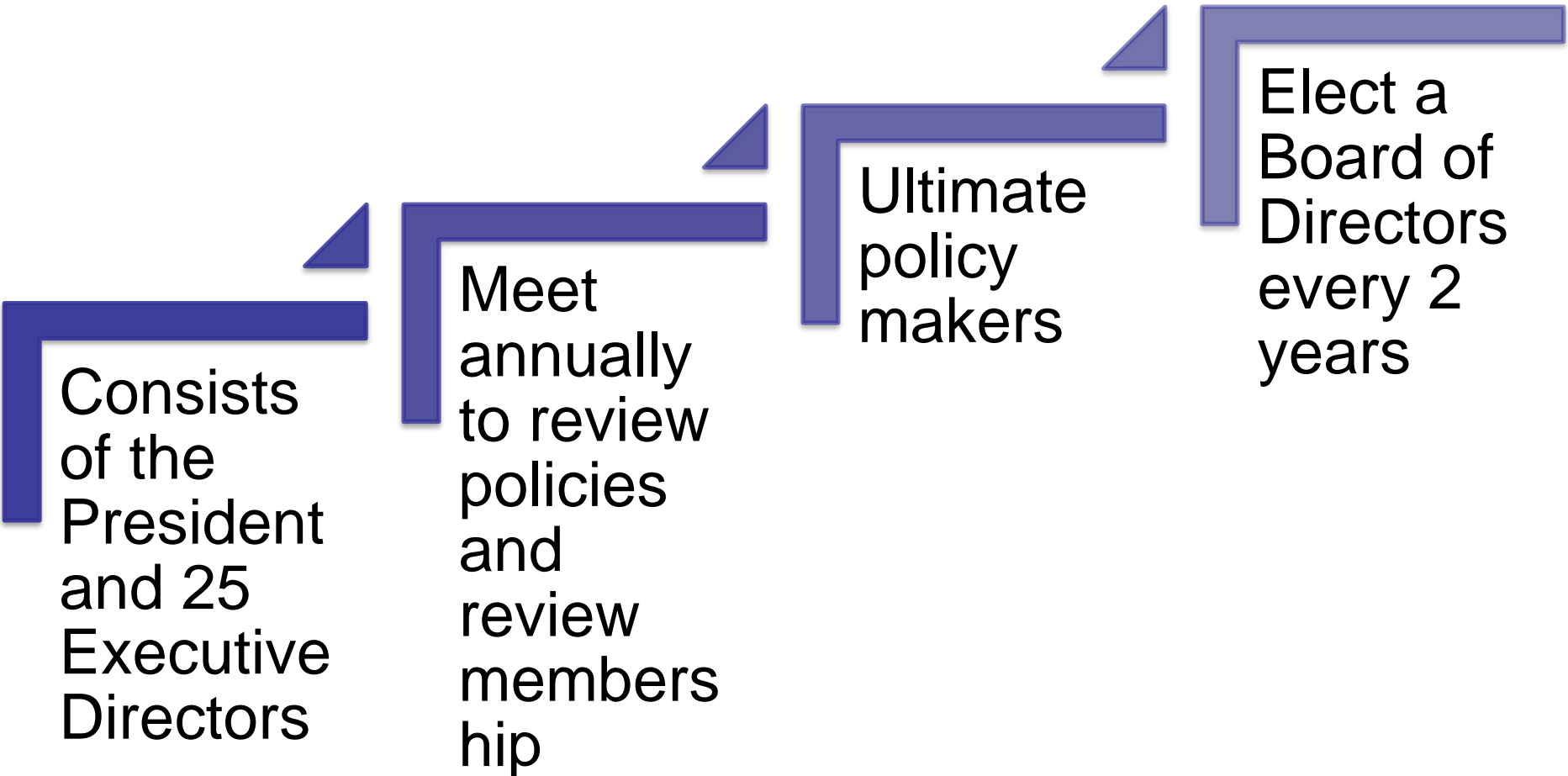
Over 100 offices all over the world

189 member countries

Membership of the IMF is required

5 Largest shareholders: France,
Germany, Japan, UK, and US

Board of Governors



Consists of the President and 25 Executive Directors

Meet annually to review policies and review membership

Ultimate policy makers

Elect a Board of Directors every 2 years

Financial Operations

- IBRD capital is derived from member's subscription to capital schemes, the calculation of which is based on their quotas in the IMF.
- IBRD loans, made to governments directly on guaranteed by them, are repayable over 15 years with a grace period of 5 years.
- In mid 1994, the World Bank Group published a review of its role and activities (to commemorate the 50th anniversary of its foundation) entitled 'Learning from the Past, Embracing the future'.
- The Bank also collaborates with other UN agencies in tackling problems of developing countries.



Technical Assistance Programmes

- The provision of technical assistance has become a major component of World Bank activities.
- In 1975, the Project Preparation facility (PPP;) was established to provide cash advance to prepare projects which may be financed by the Bank.
- In 1992, the Bank established an Institutional Development Fund (IDF) which become operational on 1st July, for providing rapid, small scale financial assistance to a maximum value of \$ 500,000 for capacity building proposals.

Other Activities

- The Bank has a strong research programme focusing on issues such as maintaining sustainable growth while protecting the environment and the poorest sections of society, encouraging the development of the private sector, and reducing and decentralizing government activities.
- The Bank collaborate with IMF in implementing structural adjustment programmes in developing countries,
- Besides, IFC has conducted several single enterprise advisory assignments in transitional economies of central and East Europe.

International Finance Corporation



IFC Established in
1956

IFC is the largest
multilateral source
of loan and equity
financing for private
sector projects in
the developing
world.



International Finance Corporation (Contd.)

- It promotes sustainable private sector investment in developing countries
- Objective is to improve the quality of the lives of people in its developing member countries.
- IFC has 181 member countries , which collectively determine its policies and approve investments.
- To join IFC, a country must first be a member of the International Bank for Reconstruction and Development (IBRD).
- IFC's corporate powers are vested in its Board of Governors, to which member countries appoint representatives.



International Finance Corporation (Contd.)

- It promotes sustainable private sector development primarily by:
 - Financing private sector projects and companies located in the developing world.
 - Helping private companies in the developing world mobilize financing in international financial markets.
 - Providing advice and technical assistance to businesses and governments.



International Finance Corporation (Contd.)

- Three major principle guiding IFC's activities are:
 - The catalytic Principle: IFC should seek all to be a catalyst in helping private investors and markets to make good investment
 - The business principle: IFC should function like business in partnership with private sector and take some commercial risks
 - The principle of special contribution: IFC should participate in investment only when it makes a special contribution that supplements or complements the role of market operators



International Development Association

- Is the part of the World Bank that helps the world's poorest countries.
- It complements the World Bank's other lending arm
- IDA was created on September 24, 1960
- It is responsible for providing long-term, interest-free loans to the world's poorest countries.



International Development Association

IDA is funded largely by contributions from the governments of the richer member countries.

Additional funds come from IBRD income and repayment of IDA credits.

IDA loans addresses:

primary education,

basic health services,

clean water supply and sanitation,

environmental safeguards,

business-climate improvements,

infrastructure and institutional reforms.

Regional Development Banks

Concept widely held in developing countries in 1950s contributed to the establishment of regional development banks.





Inter American Development Bank

Founded in 1959, Oldest and largest of the regional multilateral development banks

Largest source of development finance for Latin America

46 Member countries

Historical Priorities



Poverty Reduction & Social Equity



Sustainable Development & Growth

The Asian Development Bank



Established in
1966

A Partnership of
67 Countries

Makes loans

Provides technical
assistance

Offers advice

Provides
information

The African Development Bank

Established in
1964

53 countries in
Africa and 24
countries in
America, Europe
and Asia

To make loans and
equity investments
for economic and
social
advancement

To promote
investment of
public and private
capital for
development

Summary

- The IMF, seeks to foster a multilateral system of payments and transfers for current transactions.
- The World Bank came into existence in response to felt need that there would be a pressing need for international finance to finance both the reconstruction of productive facilities destroyed by the war.
- International Finance Corporation came into existence in response to the Bank's concern for stimulating private sector.
- Regional Development Banks came into existence as a result of strong feeling among the developing countries.

*Thank
You*