

International Financial Institutions: An Overview

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ABSTRACT

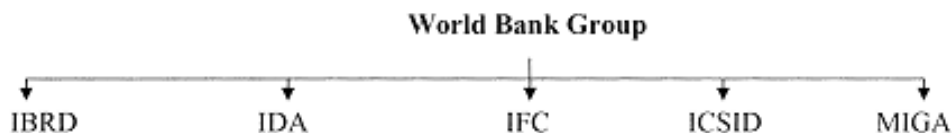
International Financial Institution play important role for Economic Development of nay country. An international financial institution (IFI) is a financial institution, established by more than one country subject to international law. The most prominent IFIs are creations of multiple nations, although some bilateral financial institutions (created by two countries) exist and are technically IFIs. The best known IFIs were established after World War II for assisting, reconstruction of Europe and provide mechanisms for international cooperation and also maintain stability in global financial system.

1. International Financial Institution:

World Bank Group

The World Bank Group (WB Group) is the vital source of financial and technical assistance to the developing countries around the world. The WB Group consists of five organisations namely, International Bank for Reconstruction and Development (IBRD) , International Development Association

(IDA), International Finance Corporation (IFC), International Centre for the Settlement of Investment Disputes (ICSID) and Multinational Investment Guarantee Agency (MIGA). Jointly, IBRD and IDA are known as World Bank. The work is further, supplemented by other three agencies.



Through loans, policy advice and technical assistance, the WB Group supports a broad range of programmes. It divides its work between IBRD and IDA; IBRD assists middle-income and credit worthy poor countries while the IDA focuses, exclusively, on the world's poorest countries. Working through these organisations, the WB Group uses its financial resources, skilled staff and an extensive knowledge base to help each member country to achieve sustainable and equitable growth. It emphasises the need for:

- (i) Investing in people, particularly, through basic health and education;
- (ii) Focusing on social development, governance and institution building as key elements of poverty reduction;
- (iii) Strengthening the ability of the Governments, to deliver quality services efficiently and transparently;
- (iv) Protecting the environment;
- (v) Supporting and encouraging private business development;
- (vi) Promoting reforms to create a stable macro-economic environment that is conducive to investment and long-term planning.

Besides this, the WB Group plays a key role in helping member countries in implementing Millennium Development Goals (MDGs) which the United Nations and broader International Communities seek to achieve by the fiscal 2015.

a) International Bank for Reconstruction and Development (IBRD):

This is the brainchild of Bretton Woods Conference held in Bretton Woods in July 1944, and it was established in the same year. It is the first amongst the WB Group, formed with the objectives (i) to reconstruct the war damaged economies and (ii) to develop the less developed economies. It began its operations in the fiscal 1946 with 38 founder members, which, subsequently, increased to 187 in fiscal 2008, out of which more than 100 members are from the developing world. The IBRD provides loans to credit worthy borrowers for specific projects (focused on poverty reduction, environmental protection and economic growth). Loans are generally repayable in fifteen to twenty years with a grace period of five years and are sanctioned out of Bank's own funds and out of capital, borrowed from the member countries. Further, loans are sanctioned to the Government and private concerns but are required to be backed by a Government guarantee. IBRD provides lending to the middle-income countries, where 70% of 90.the world's poor live. Over the period of study, the role of IBRD has completely shifted to the development of member countries. IBRD provides lending, specifically, for:

- (i) Supporting long-term human and social development needs that private creditors do not finance;
- (ii) Preserving the borrower's financial strength by providing support in crisis periods when poor people are most adversely affected;
- (iii) Using the leverage of financing to promote key policy and institutional reforms (such as anti-corruption reforms);
- (iv) Creating a favorable investment climate in order to

catalyze private investments;

- (v) Providing financial support in areas that are critical to the well-being of the poor people in all countries.

b) International Development Association (IDA)

After rebuilding the war-torn Europe, the Bank's member countries decided to form an institution that could lend to very poor developing nations on easier terms. Hence, the second unique development institution, named the International Development Association (IDA) was established in fiscal 1961 with 15 member countries and with an initial funding of US\$ 912.7 million. Main focus of IDA is on the poorest countries, to which it provides interest-free loans and grants. The IDA sanctions loans, known as credits, or soft loans, at highly concessional terms. The lending terms are determined with reference to recipient countries' risk of debt distress, the level of Gross National Income (GNI) per capita, and creditworthiness for IBRD borrowing. All the members of IBRD are the members of IDA. The credits provided by the IDA works for:

- (i) Building human capital, policies, institutions and physical infrastructure that member countries urgently need to achieve faster environmentally sustainable growth;
- (ii) In reducing disparities across and within countries, especially, in terms of access to primary education, basic health and water supply & sanitation;
- (iii) Lastly, bringing more people into the economic mainstream by raising their productivity.

IDA is the largest source of concessional financial assistance for the world's poorest countries. In the fiscal 1961, Honduras received the first-ever IDA credit of US\$ 9 million for highway development and maintenance. In the fiscal 1962, the IDA provided its first credit for education, for the construction of schools to Tunisia. In fiscal 2008, 79 developing countries, having a population of 2.5 billion (half of the population of the developing countries) were eligible to borrow from the IDA. The IDA sanction loans (credits) only to the Governments at zero rate of interest with ten years grace period and maturities of thirty-five to forty years.

Both, IBRD and IDA constitute the World Bank. Initially, only the countries, which were the members of the IMF, could become the members of the World Bank, but now any country can become the member of the World Bank if its application is supported by 75% of the existing members. Before providing a loan, the competent committees of the World Bank submit reports on the project.

Based upon the reports submitted by the committee, the decision regarding lending is finalised.

c) International Finance Corporation (IFC)

IFC is the first amongst the three complementary institutions of the WB Group. It was formed in the fiscal 1956 to promote economic development through the private sector by working with business partners of member countries. The IFC invests in sustainable private enterprises in the developing countries without taking Government guarantees. This direct lending to private enterprises is the fundamental contrast between the IFC and the IBRD, the IDA. The IFC mainly provides equity, long-term loans, loan guarantees, risk

management products and advisory services to its clients. It is the largest multilateral source of loan and equity financing for the private sector projects in the developing countries for which it charges the market rate of interest. IFC's first investment took place in the fiscal 1957 in Brazil to Siemens's affiliate for manufacturing electrical equipment. In fiscal 2008, it had 182 members.

d) International Centre for the Settlement of Investment Disputes (ICSID)

ICSID was formed in fiscal 1966 as an autonomous international institution, established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. The primary purpose of ICSID is to provide facilities for conciliation and arbitration of international investment disputes. In fiscal 2008, it had 144 members.

e) Multinational Investment Guarantee Agency (MIGA)

MIGA was set up in the fiscal 1988, to encourage foreign investment in the developing countries by providing a guarantee to foreign investors against the loss caused by non-commercial risks such as expropriation, war and civil disturbance or breach of contract. In addition, MIGA provides technical assistance to help the developing countries to promote investment opportunities and uses its legal services to reduce possible impediments to investments. It also acts as an important catalyst to promote FDI in the developing countries. In fiscal 2008, it had 175 members and had issued a guarantee worth US\$ 1.4 billion.

2. International Monetary Fund (IMF)

To ensure the stability of International Monetary System, the 45 member countries shared an idea in the Bretton Woods Conference (July 1944) to build a framework for economic cooperation, which resulted in the formation of International Monetary Fund (IMF) also known as "Fund." The IMF's primary purpose is to ensure the stability of the International Monetary System-the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from each other. This is essential for sustainable economic growth and rising living standards. The IMF came into existence in December 1945 and started its operations in fiscal 1947. It started with 30 member countries and reached to 187 members in the fiscal 2008.

Functions: Among all the IFIs, the IMF is best known for providing resources to member countries experiencing temporary Balance of Payments problem, on the condition that the borrower undertakes economic adjustment to address these difficulties. It is unique I FI in its combination of regulatory, consultative and financial functions, which are explained below-

Regulatory functions: IMF can restrict the payments and transfer for current international transactions for not submitting the required information and statistical data.

Consultative functions: It covers activities related with regular monitoring and peer review by other members of economic and financial development and policies in each of its member country. In addition, IMF reviews the world economies, financial market developments, and semi-annual consideration of the world outlook.

Financial functions: IMF provides the provision of

temporary Balance of Payments (BOP), financing and administration of Special Drawing Rights (SDR) system, concessional lending and debt relief to the poorest members.

Service and Supplementary Informational Functions:

These voluntary and supportive functions include a wide range of the programme of technical assistance and cover an arrangement of statistical and non-statistical activities, most notably the collection and dissemination of economic and financial data on its member countries, reporting on member countries and global surveillance assessments, and disseminating its policies and research findings.

The IMF activities are aimed at promoting policies and strategies through which its members can work together to ensure a stable world financial system and sustainable financial growth.

Original aims:- The original main goals of the IMF were Promoting international monetary cooperation;

- i. Facilitating the expansion and balanced growth of international trade;
- ii. Promoting exchange stability;
- iii. Assisting in the establishment of the multilateral system of payment;
- iv. Making resources available (with adequate safeguards) to members experiencing BOP difficulty.

3. Regional Development Bank:

The regional development banks are also actively involved in global and regional programs covering financial stability, trade, the environment, post conflict assistance, and knowledge; all but EBRD are also involved in the control of infectious diseases. In many cases, the regional banks' focus is on provision of regional public goods (RPGs) or on regional aspects of global public goods; in this regard, they complement the World Bank's global and regional efforts. The regional banks are also involved in helping their regional members build capacity to meet members' obligations under recent global agreements.

IDB has five priority areas in the provision of regional and global public goods: financial sector assessments, regional integration, curbing of infectious diseases, promotion of environmental services, and support for research in agriculture and regional policy dialogue. IDB has prepared a new policy framework for its support for RPGs, including a financing facility geared to providing grant financing for what it calls early-stage RPGs, where the greatest need is for dialogue among countries; later-stage RPGs, where more institutional resources to manage the emerging program are needed; and the initial stages of club RPGs, which will likely be financially self-sustaining once they are up and running.

For ADB, critical regional issues include post conflict assistance and public health measures, especially in the face of the HIV/AIDS epidemic. For ADB, key issues are the environment, health, and knowledge, with a particular focus on those issues where spill over effects exist within the region or its subregions.

Finally, for EBRD, nuclear safety is an area of special focus. It has taken the lead internationally in supporting countries in transition from socialism in the decommissioning of

nuclear capacity, along with the resolution of other environmental liabilities from the socialist era. Another area of focus is financial stability, especially the adoption by EBRD's regional members of the financial standards and codes underpinning market economies.

New Development Bank (NDB), previously known as BRICS Development Bank, (a multilateral development bank) established by the BRICS states - Brazil, Russia, India, China and South Africa. Bank will support public or private projects through loans, guarantees, equity participation and through other financial instruments. Also bank will cooperate with international organizations and other financial entities, and provide technical assistance for projects to be supported by the Bank.

The initial authorized capital of the bank is \$100 billion divided into 1 million shares having a par value of \$100,000 each. The initial subscribed capital of the NDB is \$50 billion divided into paid-in shares (\$10 billion) and callable shares (\$40 billion). The initial subscribed capital of the bank was equally distributed among the founding members. The Agreement on the NDB specifies that the voting power of each member will be equal to the number of its subscribed shares in the capital stock of the bank. NDB is currently headquartered in BRICS Tower (former Oriental Financial Centre) in Shang. The NDB has successfully registered local currency bond programs in China (RMB10bn), South Africa (R10bn) and is about to complete the registration of a ruble program (RUB100bn), with India and Brazil to follow next. Two RMB bond issuances have been completed in China, when RMB6bn was raised in two tranches of RMB3bn in 2016 and 2019 respectively. The bank is committed to making local currency funding available to all its member countries.

Multilateral development banks have provided most of their financing in foreign currency, such as US dollars or euros. However, the volatility in currency markets has made borrowers much more sensitive to potential currency mismatches. Since most of the revenues of infrastructure projects are in any event denominated in local currency, it makes sound business sense to avoid the currency mismatch by raising bonds in the domestic capital markets of our members. Green finance has gained significant momentum in recent years, with the rapid growth in the green bond market. The NDB did its first capital raising in China as a green bond, and aims to be a regular issuer in green and sustainable finance.

4. Conclusion:

It is true that effect of the international financial institutions in investments in the country and the region is reflected in Economic Development of. Almost all countries in the region, as well as international financial institutions in the country play an important role in investment within the country. Institutions in the country play an important role in investment within the country. Also, it is important to examine the impact of these institutions on the development of the country's economic progress as well as in the region, as well as these institutions have an impact in terms of advancing the process of production, optimum utilization of production capacities, as well as end as have an impact on employment.

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