

10

INTERNATIONAL FINANCIAL INSTITUTIONS

What we have learnt

- India implemented new economic policy in 1991
- As part of the new economic policy, liberalisation and privatisation were implemented.
- India gets loan and financial help from international institutions like IMF, World Bank etc.



You have already learnt about the disasters caused by the First and Second World wars and the organisations set up for peace after each war. Wars created an impasse in the world economic scenario and acute unemployment problem. War affected trade between nations and stability of money exchange adversely. Finding a permanent solution to this situation became inevitable. We shall see the international financial institutions which came into existence as a result of this.

Brettonwoods Conference

A conference was held at Brettonwoods in New Hamshare, America, from July 1st to July 22, 1944 to discuss the post war economic dead lock. The important topics of discussion in Brettonwoods Conference where the representatives of 44 countries including India participated were:

- Economic restructuring
- Stability of money exchange/ market
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The international institutions which took shape in this conference are:

- International Monetary Fund (IMF)
- International Bank for Reconstruction and Development (IBRD)

We shall study about these institutions and their activities, which have secured wide popularity today.

Brettonwoods Twins
The two financial institutions, International Monetary Fund and International Bank for Reconstruction and Development which were formed as a result of Brettonwoods Conference are called Brettonwoods Twins.

International Monetary Fund

You might have read much in newspapers regarding the International Monetary fund. Consequent upon the decision of the Bretton woods conference, this institution started functioning in March 1947. The IMF which had 44 members including India has 184 nations as members today. Washington is its headquarters.

Organisation and Control

The Board of Governors is the Supreme Council of IMF. Each member nation can appoint a governor. The authority for managing day to day affairs is vested with the executive directors. While the USA, the UK, Germany, Japan and France having higher quota appoint 5 directors in the executive board of 21 members, the other member nations have the right to appoint 16 directors only.

The eligible number of votes that can be cast for each country is determined on the basis of its quota. The USA has the right to cast the maximum number of votes (19.64%).

There should be a minimum majority of 85% of votes to take policy decisions. From this, it is clear that no policy decisions can be taken without the permission of America and other powerful nations.

How membership quota is mobilised

IMF mobilises working capital by fixing quota for each country. The quota of each country is determined on the basis of the statistics of national income, import, export etc. applying a particular formula. 25% of the quota is to be deposited as gold and remaining 75% as its own currency. The money and gold thus mobilised is the fund of IMF. This fund is utilized by IMF for the following purposes.

Let us see the functions of IMF. Try to find out more.

- To facilitate international trade and development.
- To give technical assistance regarding budget, financial matters and foreign exchange to its member countries.

- To extend loans to its member countries
- To help in the fixation and control of exchange rate.
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Exchange Rate

The rate at which the currency of one country is exchanged with the currency of another country is known as foreign currency exchange rate.

International Bank for Reconstruction and Development (IBRD) - World Bank

The Bank of International Reconstruction and Development started functioning on 25th June, 1946. IBRD was established with a view to helping its members in reconstructing postwar economy and boosting the economy of developing countries.

Organisation and Control

The board constituted by the Governors appointed by the member countries has the supreme power. The Governors elect Chairman for a term of one year. 21 executive directors control the day-to-day affairs. Among the 21 executive directors, 5 members are elected by countries having higher quota and the other members are elected by the other member countries. The president of IBRD is the chairman of the executive directors.

Mobilisation of capital

Let us see the different ways through which capital is mobilised for the activities of the bank.

- The quota of member countries
- Advances

IBRD grants advance only on the basis of reports made by the council of experts after examining the developmental projects submitted by the member countries. World Bank extends advances mainly for productive purposes.

The functions of the World Bank are given below.

- To reconstruct the economies destroyed due to war
- To give assistance to developmental activities
- To encourage private foreign investments
- To provide finance to developing countries and enable them to mobilise capital to increase production.

The members of IMF are the founder members of the World Bank. If a country wants membership, 70% of the total members should support the membership. Likewise a country loses its membership, if it does not obey the rules of the World Bank.

On the basis of the functions of IMF and World Bank, compare them and expand the table (10.1)

Related Institutions

We shall study about the two related institutions of the World Bank and their functions.

International Development Association (IDA)

This is an institution under the control of the World Bank. Backward countries were in need of foreign aid for increasing production, poverty alleviation and control of population. World Bank extends finance only after considering the country's repayment capacity. For this reason many countries failed to obtain the required financial assistance. IDA was constituted in 1960, to extend financial assistance including long term grants to such countries.

Only those countries having membership in the World Bank have membership in IDA. Some officials of the World Bank render service to IDA which also has the same structure as that of the World Bank. The president of the World Bank is also the president of the IDA.

International Finance Corporation (IFC)

IFC, established in 1956, is a financial institution under the control of the World Bank.

IMF	World Bank
<ul style="list-style-type: none"> ● Solve short term economic problems ● Financial flows are controlled, protected, stabilised and balanced at global level. ● 	<ul style="list-style-type: none"> ● Boost activities for the development of capital. ● Solve long term economic problems. ●

Table 10.1

It is the only international agency which helps private entrepreneurs. IFC gives financial assistance to projects submitted by member nations to improve private sectors. IFC and World Bank are legally and economically independent institutions which exist separately.

Only those who have membership in the World Bank have membership in the IFC. The president of the World Bank is the informal chairman of the Director Board of IFC.

Now you can prepare and present a note on the World Bank and related institutions.

Asian Development Bank (ADB)

As the World Bank suggests and helps in the resolution of global economic problems, often many countries fail to get financial assistance. In this context, in the minister level conference on Asian Economic Co-operation held in Manila in 1963, the idea of establishing a regional bank for South Eastern countries in Asia was mooted. As a result the ADB was formed on 19th December 1966. Currently there are 61 members in the ADB which had 31 members previously. Manila in Philippines is the head quarters of ADB.

Organisation and Control

The supreme power of the ADB, which functions in co-operation with the UNO and its affiliates, is vested in the Board of Governors. Each member country can appoint a Governor. Routine matters are attended by a 12 member Board of Directors. The chairman of the Board of Directors is the President of the ADB.

Mobilisation of capital

ADB mobilises capital mainly through two channels.

- Issuing shares to member countries.
- Through special funds.

Let us look at the objectives of the of the ADB.

- Provides loans to member countries.
- Renders help to member countries for the formulation of development projects and policies.
- Acts as a mediator for the exchange of capital between countries.
- Provides technical assistance to member countries.
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India and International Financial Institutions

We have seen that India has been a member of international financial institution from the beginning. India has received over the years, loans and technical assistance from these institutions for development projects. If we are to have the capacity to repay loans and their interest in future, the loans should be productively used. Otherwise, foreign debt may have to be repaid through raising the tax burden.

The reasons for the recent increase in India's public debt, were seen in the last chapter. Undoubtedly the country will be trapped in debt with new/more borrowings, if the repayment capacity is not increased. Better financial management becomes necessary in

such circumstances. These institutions provide assistance on the basis of clear criteria. By imposing adequate safeguards and putting such loans only to productive uses, debt trap can be avoided.

You have noted the issues connecting India and the international financial institutions. Try to prepare a note entitled 'India and International Financial Institutions' based on detailed information from newspapers and present it. _____ ■



SUMMARY

- IMF and IBRD are the two institutions established to find solutions to the deadlock in the world economy.
- While the IMF solves short term economic problems, the IBRD settles long-term economic issues.
- IDA and IFC are the two affiliates of the World Bank.
- Membership in the affiliated institutions is open only to the members of the World Bank.
- ADB has been established with the objective of the economic development of South East Asian Countries.
- India is a member of almost all international financial institutions.



QUESTIONS

1. Prepare a short note on the IMF and its different functions.
2. 'No policy decision can be taken in the IMF without the consent of developed countries including America. Why?
3. Operational objectives of the IMF are different from that of the World Bank. Elucidate.
4. Organisation and control of the IMF and the World Bank are different. Elucidate.
5. Explain the circumstances that led to the establishment of the ADB and its objectives.
6. Prepare short notes:
 - *International Development Association*
 - *International Financial Corporation*
 - *Asian Development Bank- structure and control*