

# INTERNATIONAL FINANCIAL ORGANISATIONS

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## WORLD BANK GROUP & ITS ORGANISATIONS

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### INTRODUCTION

World Bank Group is a Washington D.C based group of five International Organizations that provide loans to developing and underdeveloped countries. It is one of the largest development banks in the world and also it is an observer at the United Nations Development Group(UNDG). India is a member of 4 of its organizations viz. International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), International Finance Corporation (IFC) and (4), Multilateral Investment Guarantee Agency (MIGA). But India is not a member of International Centre for Settlement of Investment Disputes (ICSID).

### INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

- The International Bank for Reconstruction and Development (IBRD) is the oldest World Bank Institution, it was established in 1945.
- It lends money to the developing and underdeveloped countries at a very low interest rate.
- Area of focus for providing loans- agriculture, irrigation, urban development, healthcare, family welfare, dairy development, etc.

### INTERNATIONAL DEVELOPMENT AGENCY (IDA)

- It is also known as soft window of the World Bank, it was established in 1960.
- Its basic aim is to give infrastructural support to the member countries.
- It provides long-term interest free loans for the development of economic services.
- Its loans are known as Credits.
- The term World Bank generally refers to just the IBRD and IDA, whereas the term World Bank Group is used to refer to all five institutions.

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### INTERNATIONAL FINANCE CORPORATION (IFC)

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- It is also known as the Private arm of the World Bank, it was established in 1956.
- It lends money to private sector companies of its member nations with commercial interest (but comparatively low).
- It finances and provides advice for private-public projects in partnership with private investors.
- It invests only when it can make a special contribution that complements the role of market investors as a foreign financial investor (FFI).

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### MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

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- It was established in 1988.
- It encourages foreign investment in developing countries by offering insurance to foreign private investors against loss caused by non-commercial political risks.

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### INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES (ICSID)

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- It was established in 1966.
- It is an investment dispute settlement body whose decisions are binding on the parties.
- It was set up under the 1966 'Convention on the Settlement of Investment Disputes between States and National of other States.
- It settles the investment disputes between the foreign companies and the host countries where the investment have been done.

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### FAST FACTS ON WORLD BANK

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- World Bank was formed on **July 1944** at the **Bretton Woods Conference**.
- Headquarter of World Bank is located at **Washington D.C. (U.S.A.)**
- The main purpose of the world bank is "**Reduction of Poverty**".
- Current member nations of world bank are **188**.
- Now the president of the World Bank is **Jim Yong Kim**.
- World Bank is comprises of two institutions - International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).
- World Bank is member of the United Nations Development Group as well as World Bank Group.
- World Bank Group includes - International Bank for Reconstruction and Development (IBRD), International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency, International Center for Settlement of Investment Disputes.
- The president of the world bank comes from the largest shareholder. Members are represented by a Board of Governors.
- If a country wants to be a member of world bank, it has to purchase the shares of world bank group institutions as per agreement, rules and regulations set.
- The five largest shareholders are U.S. , U.K. , France, Germany and Japan.

- The largest shareholders nations has their own Executive Directors.

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## OBJECTIVES AND FUNCTIONS OF WORLD BANK

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- To help in reconstruction and development of member countries.
- Spread peace all over the world regarding financial terms.
- Helps to the economies of those countries destroyed by wars.
- Helps to developing and less developed countries by crediting the finance.
- To promote private foreign investments.
- To promote long term balanced growth of international trade.
- Maintenance of equilibrium in balance of payments of member countries and also to increase the standard of living as well as labor conditions of developing and less developed countries.
- Investment of money in productive purposes only.
- World Bank provides various technical services to member countries. "**The Economic Development Institute**" and a "**Staff College**" has established by world bank in Washington.
- World Bank can grant loans to a member country up to **20%** of that country's share in the paid up capital.
- The interest rate, quantities of loans and all any other terms and conditions are determined by world bank itself.
- The borrower nation has to repay either in reserve currencies or in the currency in which the loan was sanctioned.

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## MEMBERSHIP

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- Any country can become the member of world bank if **75%** of the existing member countries approved the application.
- Any member nation can also resign from its membership voluntarily or if any country violates the rules of the world bank.

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## MANAGEMENT

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- Management of world bank includes - Board of Governors, Board of Executive Directors, Loan Committee, Advisory Committee, President and other members of the staff.
- **Board of Governors** of the world bank includes one Governor (Finance Minister) and one alternate governor (governor of central bank) appointed by each member country for a term of **5 years**. Each governor has voting power in relation to its financial contribution to the capital of the bank. Board is required to meet at least once in a year.
- **Executive Directors** are **21** and out of this **6** are appointed by the six largest shareholders like USA, UK, Germany, France and Japan. The remaining 15 members are elected by the rest of member countries. It meets once a month to carry on daily routine work.
- **President** is appointed by board of executive directors.
- World Bank perform its functions with the help of **two committees** - Advisory Committee and the Loan Committee. Advisory Committee includes **7 experts** appointed by the Board of Governors. Loan

Committee is constituted by the executive directors and loan is provided as per the economies of member countries.

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## LENDING PROCEDURES

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- Loans out of its own funds
- Loans out of borrowed capital
- Loans through Bank's Guarantee

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## INTERNATIONAL MONETARY FUND (IMF) - IMPORTANT FACTS

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The **International Monetary Fund** is an international organisation which work for standardisation of global financial relations and exchange rates.

- Membership-188 countries.
- **Headquarters of IMF - Washington DC**
- Executive Board - 24 Directors each representing a single country a single country or group of countries
- Staff - Approximately 2600 from 147 countries
- Biggest Borrowers - Portugal, Greece, Ireland and Ukraine
- Biggest Precautionary loans - Mexico, Poland, Colombo and Morocco
- Highest Voting Power - United States

IMF has a management team and **17 departments** to carry out its work

IMF has a Managing Director, who is the head of the staff and Chairperson of Executive Board. The Managing Director is appointed by Executive Board for a renewable term of five years.

The current Managing Director of IMF is **Christine Lagarde**.

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## ESTABLISHMENT:

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- It was established at the conference of **44 nations** held at **Bretton Woods, New Hampshire, USA, in July 1944**.
- IMF was officially created in **1945** with **29 member countries**.

It was established to prevent unstable exchange rates and competitive devaluation among economies.

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## AIMS OF IMF:

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- IMF promotes international monetary cooperation
- It helps in expansion and balanced growth of international trade
- It promotes exchange stability

- It helps to remove deficiency in Balance of Payments

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### FUNCTIONS OF IMF:

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- IMF set standards for global economy and monitors financial communications between countries.
- It helps its member countries by lending money to make their economies and financial structure stable.
- It assists the member countries to develop sustainable financial policies.
- It provides economic advice to countries to maximise their financial effectiveness.
- It helps developing countries to stabilise and sustain themselves in global economy.

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### IMF AND WORLD BANK

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World Bank is an international organisation that provides loan to developing countries for long term projects. It was formed on **July, 1944**.

IMF's primarily goal is to stabilise exchange rates while World Bank's goal is to reduce poverty.

Both the organisation were established at Bretton Woods Conference.



### IMF AND INDIA:

- **Mr Arun Jaitley, Finance Minister of India** is **ex-officio Governor** on the Board of Governors of IMF.
- **Mr Raghuram Rajan, RBI Governor** is **alternate governor** at the IMF.
- **Executive Director Dr. Rakesh Mohan**, represent India at IMF. He also represent three other countries - Bangladesh, Sri Lanka and Bhutan.

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### RELATED TERMS:

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- **SPECIAL DRAWING RIGHTS** - SDR is an international reserve asset , which was created by IMF in 1969. It is an artificial currency use by member countries to settle trade balances between countries and then repay IMF. It is also known as **PAPER GOLD**, but it is neither paper nor gold but an accounting entry.
- **BALANCE OF PAYMENTS** - It is the set of accounts that records a country's international transactions.

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## BANK FOR INTERNATIONAL SETTLEMENTS: BANKER TO ALL CENTRAL BANKS

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### INTRODUCTION

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The Bank for International Settlements (BIS) is an international organization which was formed in 1930 with the objective of serving the Central Banks of various nations, aiding them to develop an environment of monetary and financial stability via concerted efforts to bring about International co-operation. The Bank for International Settlements popularly termed as “Bank for Central Banks” has its headquarters in Basel, Switzerland, came into being consequent of the provisions of Hague Agreement of 1930. Being one of the oldest international financial entities it has around 60 member Central Banks, representing various nations from around the world.

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## FUNCTIONS

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- Facilitation of discussion and collaboration among Central Banks around the world,
- Facilitation of Dialogue with other respective authorities who are responsible for promoting financial stability,
- Leading Counterparty for various financial transactions specifically involving various Central Banks around the world,
- To function as agent or guardian with regard to international financial operations.

Though a banker to Central Banks around the world, Bank for International Settlement makes most of their work free of any fee, which includes analysis of monetary and financial stability issues as well as International Banking and financial statistics. BIS as a bank are not into any banking activities such as acceptance of deposits or rendering of any financial services to private or corporate enterprises.

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## MAJOR DEPARTMENTS

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It has three departments that govern the seamless functioning of the same:

- Monetary and Economic department that facilitates research and analysis with special regard to financial stability,
- Banking Department which provides a multitude of financial services to Central Banks including management of foreign exchange as well as gold reserves,
- General Secretariat which provides the entire Bank with the required organizational support in terms of human resource, technical support as well as services.

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## REGIONAL OFFICES

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BIS also have two regional offices:

- The Representative Office for Asia and Pacific in Hong Kong,
- The Representative Office for the Americas in Mexico City.

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## GOVERNING AUTHORITIES

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All the above mentioned functions and objectives are performed via efficient governance and management at three principal levels such as:

- General Meeting of the member Central Banks to BIS
- Board of Directors
- BIS Management

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## CONCLUSION

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Bank for International Settlement has become quite renowned for its adherence to the principal of monetary and financial stability especially through the much renowned Basel Process which is based on three key features of Co-Location that ensures co-operative associations between various governance structures as well as committees of Bank for International Settlements, Flexibility and openness in the exchange of information that realizes the motive of financial stability, and support from BIS via its own Financial stability Institute(FSI) in the field of Economics, Banking as well as regulatory frameworks.

It also hosts the much celebrated Secretariat of the Basel Committee on Banking Supervision and played quite a pivotal role in the launching of Basel Capital Accord of 1988, Basel II as well as Basel III norms. Being the stalwart among various International Financial Institutions BIS has carved out a niche for itself among them especially with regard to the objective of ensuring financial and economic permanence.

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## BRICS BANK - EVERYTHING YOU NEED TO KNOW

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The New Development Bank (NDB), formerly referred to as the BRICS Development Bank, is a multilateral development bank established by the BRICS states (Brazil, Russia, India, China and South Africa).According to the Agreement on the NDB, **"the Bank shall support public or private projects through loans, guarantees, equity participation and other financial instruments."** Moreover, the NDB "shall cooperate with international organizations and other financial entities, and provide technical assistance for projects to be supported by the Bank."

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## INITIAL CAPITAL

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The initial authorized capital of the bank is \$100 bln divided into 1 mln shares having a par value of \$100,000 each. The initial subscribed capital of the NDB is \$50 bln divided into paid-in shares (\$10 bln) and callable shares (\$40 bln). 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.

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## KEY FACTS

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- NDB is currently headquartered in BRICS Tower (former Oriental Financial Centre) in Shanghai
- The bank is headquartered in Shanghai, China.The first regional office of the NDB is in Johannesburg, South Africa.
- Headquarters - **Shanghai, China**
- Chairmanship - **Russia and Brazil**

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## STRUCTURE

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According to the Articles of Agreement, the main organs of the bank are:

- Board of Governors
- Board of Directors
- President and Vice-Presidents

As of March 2018, the members of NDB Board of Governors are as follows:

- Henrique de Campos Meirelles, Brazil's Minister of Finance
- Anton Siluanov, Russia's Minister of Finance
- Arun Jaitley, India's Minister of Finance, Corporate Affairs and Information & Broadcasting
- Xiao Jie, China's Minister of Finance - Chairman of the Board of Governors
- Malusi Gigaba, South Africa's Minister of Finance - Vice-Chairman of the Board of Governors

The NDB President will be elected on a rotational basis from one of the founding members, and there will be at least one Vice President from each of the other four founding members.

**K. V. Kamath, from India, is the first elected president of the NDB.**

The first chair of the Board of Governors is from Russia and the first chair of the Board of Directors is from Brazil

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## OBJECTIVES

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The bank aims to contribute to development plans established nationally through projects that are socially, environmentally and economically sustainable. Taking this into account, the main objectives of the NDB can be summarized as follows

- Promote infrastructure and sustainable development projects with a significant development impact in member countries.
- Establish an extensive network of global partnerships with other multilateral development institutions and national development banks.
- Build a balanced project portfolio giving a proper respect to their geographic location, financing requirements and other factors.

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## ASIAN DEVELOPMENT BANK

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The Asian Development Bank (ADB) is a regional development bank established on 19 December 1966 headquartered in the Ortigas Center located in the city of Mandaluyong, Metro Manila, Philippines. The bank admits the members of the United Nations Economic and Social Commission for Asia and the Pacific and non-regional developed countries. From 31 members at its establishment, ADB now has 67 members, of which 48 are from within Asia and the Pacific and 19 outside. The ADB was modeled closely on the World Bank, and has a similar weighted voting system where votes are distributed in proportion with members' capital subscriptions. ADB is an official United Nations Observer.

As of 31 December 2016, Japan and United States hold the largest proportion of shares at 15.607%. China holds 6.444%, India holds 6.331%, and Australia holds 5.786%

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## ORGANIZATION

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The highest policy-making body of the bank is the Board of Governors, composed of one representative from each member state. The Board of Governors, in turn, elect among themselves the twelve members of the Board of Directors and their deputies. Eight of the twelve members come from regional (Asia-Pacific) members while the others come from non-regional members.

The Board of Governors also elects the bank's president, who is the chairperson of the Board of Directors and manages AD. Traditionally, and because Japan is one of the largest shareholders of the bank, the president has always been Japanese.

**The current president is Takehiko Nakao, who succeeded Haruhiko Kuroda in 2013.**

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## OBJECTIVES AND ACTIVITIES

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### AIM

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The ADB defines itself as a social development organization that is dedicated to reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth, and regional integration. This is carried out through investments – in the form of loans, grants and information sharing – in infrastructure, health care services, financial and public administration systems, helping nations prepare for the impact of climate change or better manage their natural resources, as well as other areas.

### FOCUS AREAS

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Eighty percent of ADB's lending is concentrated public sector lending in five operational areas.[18]

- **Education** – Most developing countries in Asia and the Pacific have earned high marks for a dramatic rise in primary education enrollment rates in the last three decades, but daunting challenges remain, threatening economic and social growth.
- **Environment, Climate Change, and Disaster Risk Management** – Environmental sustainability is a prerequisite for economic growth and poverty reduction in Asia and the Pacific.
- **Finance Sector Development** – The financial system is the lifeline of a country's economy. It creates prosperity that can be shared throughout society and benefit the poorest and most vulnerable people. Financial sector and capital market development, including microfinance, small and medium-sized enterprises, and regulatory reforms, is vital to decreasing poverty in Asia and the Pacific. This has been a key priority of the Private Sector Operations Department (PSOD) since 2002. One of the most active sub-sectors of finance is the PSOD's support for trade finance. Each year the PSOD finances billions of dollars in letters of credit across all of Asia and the rest of the world.
- **Infrastructure**, including transport and communications energy water supply and sanitation and urban development.
- **Regional Cooperation and Integration** – Regional cooperation and integration (RCI) was introduced by President Kuroda when he joined the ADB in 2004. It was seen as a long-standing priority of the Japanese government as a process by which national economies become more

regionally connected. It plays a critical role in accelerating economic growth, reducing poverty and economic disparity, raising productivity and employment, and strengthening institutions.[27]

- **Private Sector Lending** – This priority was introduced into the ADB's activities at the insistence of the Reagan Administration. However, that effort was never a true priority until the administration of President Tadeo Chino who in turn brought in a seasoned American banker – Robert Bestani. From then on, the Private Sector Operations Department (PSOD) grew at a very rapid pace, growing from the smallest financing unit of the ADB to the largest in terms of financing volume. As noted earlier, this culminated in the Long Term Strategic Framework (LTSF) which was adopted by the Board in March 2008.

## ASIAN INFRASTRUCTURE INVESTMENT BANK

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### INTRODUCTION

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AIIB is projected as an alternate international financial institution for World Bank, IMF and ADB from China. AIIB provides long-term finance to develop infrastructure in the developing nations of the world especially in the Asia Pacific.

### WHAT IS AIIB?

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- AIIB is a multilateral development bank proposed by Mr Xi Jinping, President of China in Indonesian Parliament in October 2013
- 21 founding members signed the bill to open AIIB
- AIIB was established on 24th October 2014
- Head Quarters located in Beijing, China
- The corpus fund is \$100 billion with China as the majority shareholder
- AIIB will enhance integration and interconnection process of economic development in the region

### LIST OF BANKS UNDER THIS CATEGORY

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- Asian Infrastructure Investment Bank
- International Monetary Fund
- New Development Bank – BRICS
- Asian Development Bank
- World Bank

### FOUNDING MEMBERS

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- China
- India
- Singapore
- Thailand
- Pakistan
- Malaysia
- Philippines
- Nepal

- Cambodia
- Brunei
- Vietnam
- Oman
- Sri Lanka
- Kazakhstan
- Qatar
- Uzbekistan
- Myanmar
- Bangladesh
- Laos
- Since establishment, 13 additional members have joined AIIB
- Now, Total members of AIIB is 57
- President of AIIB is Jin Liqun
- G7 and developed nations are not members of AIIB

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### PURPOSE OF AIIB

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- Aims to develop infrastructure in Asian countries
- ADB estimates that nearly \$13 trillion is essential for economic development of Asia
- AIIB will help in networking Asian nations to boost trade

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### BENEFITS TO CHINA

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- AIIB will broaden the regional infrastructure scheme of “One Belt, One Road” (OBOR)
- OBOR aims to expand all forms of transport – water, road, air and rail from China to Asia, Europe and the Middle East
- Propagate Chinese Renminbi in the international economy
- AIIB will enable China to play a major role in Asian Affairs
- AIIB uses the opportunity of the declining US economy to become a global figure in place of World Bank and IMF
- In the name of Infrastructure development, China strengthens its trade routes with its neighbors and Asian ally nations like Laos (Kunming-Singapore Railway)
- China and its allies like BRICS form an alternate to the 70 year supremacy of US and allies in the global economy

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### CONCERN AREAS

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- Environmental hazards like to happen in the name of infrastructure development
- Chinese infrastructure development in Indonesia has witnessed deforestation to a large extent
- Infrastructure development will result in increasing the pollution level further
- Controversial proposals of AIIB including railway track through Mount Everest and a railway line passing through the middle of the Amazon forest
- Ecological disturbance will occur
- Habitat loss for many species as a result of infrastructure development

- Chinese bank projects earlier have seen the worst record of environmentally friendly behaviour

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### KEY POINTS

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- Headquarters: Beijing, China
- Membership: 64 Members
- President : Jin Liquan
- Vice President and Chief Investment Officer : Dr. D. J. Pandian

