



JAIIB (New Syllabus)

**INDIAN ECONOMY &
INDIAN FINANCIAL SYSTEM
(IE&IFS).**

Paper-1

MODULE-A, UNIT-9



**INTERNATIONAL ECONOMIC ORGANISATIONS
(WORLD BANK, IMF, ETC.)**

Paper IE and IFS Module A Unit 9: International Economic Organisations (WORLD BANK, IMF, ETC.)

International Monetary Fund (IMF)

About

- **The formation of the IMF was initiated in 1944 at the Bretton Woods Conference.**
- IMF came into operation on **27th December 1945** and is today an international organization that consists of **190 member countries**.
- **Headquartered:** Washington, D.C.,
- **IMF focuses on fostering global monetary** cooperation, securing financial stability, facilitating and promoting international trade, employment, and economic growth around the world. The IMF is a specialized agency of the United Nations.
- **The Fourteenth General Review of Quotas (2010) aimed** at realigning member country quota shares, emphasizing shifts to dynamic emerging market and developing countries (EMDCs) that were underrepresented earlier. It ensures safeguarding the voting share of the poorest members.

Formation of IMF

- The breakdown of international monetary cooperation during the Great Depression led to the development of the IMF, which aimed at improving economic growth and reducing poverty around the world. The International Monetary Fund (IMF) was initially formed at the Bretton Woods Conference in 1944. **45 government representatives** were present at the Conference to discuss a framework for postwar international economic cooperation.
- The **IMF became operational on 27th December 1945 with 29 member** countries that agreed to bound to this treaty. It began its financial operations on 1st March 1947. Currently, the IMF consists of 189 member countries.
- The IMF is regarded as a key organisation in the international economic system which focuses on rebuilding the international capital along with maximizing the national economic sovereignty and human welfare.

Organizational Structure of International Monetary Fund (IMF)

The United Nations is the parent organization that handles the proper functioning and administration of the IMF. The IMF is headed by a Managing Director who is elected by the **Executive Board for a 5-year term of office**. The International Monetary Fund (IMF) consists of the Board of Governors, Ministerial Committees, and the Executive Board.

Structure of the International Monetary Fund (IMF)	
Governing Bodies of IMF	Roles and Responsibilities

Board of Governors	<ul style="list-style-type: none"> • Each governor of the Board of Governors is appointed by his/her respective member country. • Elects or appoints executive directors to the Executive Board. • Board of Governors is advised by the International Monetary and Financial Committee (IMFC) and the Development Committee. • An annual meet up between the Board of Governors and the World Bank Group is conducted during the IMF–World Bank Annual Meetings to discuss the work of their respective institutions.
Ministerial Committees <ol style="list-style-type: none"> 1. International Monetary and Financial Committee (IMFC) 2. Development Committee 	<ul style="list-style-type: none"> • It manages the international monetary and financial system. • Amendment of the Articles of Agreement. • To solve the issues in the developing countries that are related to economic development.
Executive Board	<ul style="list-style-type: none"> • It is a 24-member board that discusses all the aspects of the Funds. • The Board normally makes decisions based on consensus, but sometimes formal votes are taken.

Functions of the IMF?

IMF mainly focuses on supervising the international monetary system along with providing credits to the member countries. **The functions of the International Monetary Fund can be categorized into three types:**

- **Regulatory functions:** IMF functions as a regulatory body and as per the rules of the Articles of Agreement, it also focuses on administering a code of conduct for exchange rate policies and restrictions on payments for current account transactions.
- **Financial functions:** IMF provides financial support and resources to the member countries to meet short term and medium term Balance of Payments (BOP) disequilibrium.
- **Consultative functions:** IMF is a centre for international cooperation for the member countries. It also acts as a source of counsel and technical assistance.

Objectives of the IMF

IMF was developed as an initiative to promote international monetary cooperation, enable international trade, achieve financial stability, stimulate high employment, diminish poverty in the world, and sustain economic growth. Initially, there were 29 countries with a goal of redoing the global payment system. Today, the organization has 189 members. **The main objectives of the International Monetary Fund (IMF) are mentioned below:**

- To improve and promote global monetary cooperation of the world.
- To secure financial stability by eliminating or minimizing the exchange rate stability.
- To facilitate a balanced international trade.
- To promote high employment through economic assistance and sustainable economic growth.
- To reduce poverty around the world.

India & IMF

India is a founder member of the IMF. India's Union Finance Minister is the Ex Officio Governor on the IMF's Board of Governors. Each member country also has an alternate governor. The alternate governor for India is the Governor of the RBI. There is also an Executive Director for India who represents the country at the IMF.

- India's quota in the **IMF is SDR 13,114.4 million** that gives India a shareholding of 2.76%. Read about the Special Drawing Rights – **Created in 1969 by International Monetary Fund (IMF) at the linked article.**
- This makes India the eight largest quota holding country at the organization.
- In 2000, India completed the repayment of all the loans it had taken from the IMF.
- Now, India is a contributor to the IMF.

The emerging economies have gained more influence in the governance architecture of the International Monetary Fund (IMF).

- The reforms were agreed upon by the then 188 members of the IMF in 2010, in the aftermath of the global financial meltdown.
- More than six percent of the quota shares will shift to emerging and developing countries from the U.S. and European countries.

Which countries gained?

India's voting rights increased to 2.63 percent from the current 2.3 percent, and China's to 6.08 percent from 3.8. Russia and Brazil are the other two countries that gain from the reforms.

Why delay the reforms?

- Among the reasons for the delay has been the time it took the U.S Congress to approve the changes.

- Though the country holds veto power, Republicans have been agitated over “declining U.S power.”

Advantages

- For the first time, the Executive Board will consist entirely of elected executive directors, ending the category of appointed executive directors. Currently, the members with the five largest quotas appoint an executive director, a position that will cease to exist.
- The significant resource enhancement will fortify the IMF’s ability to respond to crises more effectively.
- These reforms will reinforce the credibility, effectiveness, and legitimacy of the IMF.

Special Drawing Rights (SDR)

- The SDR is an international reserve asset created by the IMF to supplement the official reserves of its member countries.
- The SDR is not a currency. It is a potential claim on the freely usable currencies of IMF members. As such, SDRs can provide a country with liquidity.

Export criterion

- A currency meets the export criterion, if its issuer is an IMF member or a monetary union that includes IMF members and is also one of the top five world exporters.

Freely usable criterion

- For a currency to be determined ‘**freely usable**’ by the IMF, it has to be widely used to make payments for international transactions and widely traded in the principal exchange markets. Freely usable currencies can be used in Fund financial transactions.

World Bank

About

- With **189 member** countries, the World Bank Group is a unique global partnership: **five institutions** working for sustainable solutions that reduce poverty and build shared prosperity in developing countries.
- The Bank Group works with country governments, the private sector, civil society organizations, regional development banks, think tanks, and other international institutions on issues ranging **from climate change, conflict, and food security to education, agriculture, finance, and trade.**

World Bank Group consists of five development institutions.

International Bank for Reconstruction and Development (IBRD):

- Founded in 1944, the **International Bank for Reconstruction and Development (IBRD)** — soon called the **World Bank** — has expanded to a **closely associated group of five development institutions**.
- The two major accomplishments of the conference were the creation of the **International Bank for Reconstruction and Development (IBRD)** and **International Monetary Fund (IMF)**.
- Provides loans, credits, and grants.

International Development Association (IDA)

- Founding of the **International Development Association (IDA)** in 1960 put greater emphasis on the poorest countries, part of a steady shift toward the eradication of poverty becoming the Bank Group's primary goal.
- Provides low- or no-interest loans to low-income countries.

International Finance Corporation (IFC)

- With the founding of the **International Finance Corporation (IFC)** in 1956, the institution became able to lend to private companies and financial institutions in developing countries.
- The **International Finance Corporation (IFC)** provides investment, advice, and asset management to companies and governments.

Multilateral Guarantee Agency (MIGA)

- **Multilateral Investment Guarantee Agency (MIGA)** founded in 1988 insures lenders and investors against **political risk such as war**.
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International Centre for the Settlement of Investment Disputes (ICSID)

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Note: All of these efforts support the **Bank Group's twin goals of ending extreme poverty by 2030** and boosting **shared prosperity** of the poorest 40% of the population in all countries.

What about the Coopeation between World Bank Group and India?

- **India was one of the forty-four original signatories** to the agreements reached at **Bretton Woods** that established the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF).
- It was also one of the **founding members of the IFC in 1956 and the IDA in 1960**. India later became a member of the MIGA in January 1994.

- **India is not a member of ICSID.** India claimed ICSID **Convention is not fair, convention's rules for arbitration leaned towards the developed countries.** In ICSID, the Chairman of the Centre is the Chairman of the World Bank. The Chairman appoints the arbitrators. If the arbitration award is not satisfactory, then the aggrieved party would appeal to a panel, which will also be constituted by the ICSID. There is **no scope for a review of the award by an Indian court, even if the award is against public interest.**
- IBRD lending to India commenced in 1949 with a loan to the **Indian railways**, the first investment by the IFC in India took place in 1959, and by IDA in 1961 (**a highway construction project**).
- During the 1950s, the IBRD was India's sole source of World Bank borrowings.
- By the end of the decade, India's mounting debt problems became an important factor in the launch of the IDA, the soft loan affiliate of the World Bank (WB) group.
- By the end of the 1960s, the United States, until then India's largest source of external resources, sharply cut its bilateral aid program. Since then, the WB emerged as the most important source of official long-term finance.
- During the 1960s and 1970s, the IDA accounted for nearly three-fourths of all WB lending to India and, in turn, India was by far the largest recipient of IDA funds, accounting for more than two-fifths of all its lending.
- The subsequent decade, **with China joining the WB in 1980** and accordingly entering its own claims to limited IDA resources, the worsening economic fortunes of Africa, and India's better performance, saw a **sharp decline in India's share in IDA.**
- Instead, its share of **IBRD lending grew sharply in the 1980s**, buoyed by its improving **credit-worthiness** and the Indian government's **waning inhibitions** with regard to **non-concessional borrowing.**
- **During the 1980s**, while the WB shifted its emphasis to **stress** policy reforms and **greater economic liberalization**, it continued to **lend to poorly governed public sector institutions** in India and was muted in its criticism of India's closed economy.
- **The lending portfolio changed sharply after the 1991 macroeconomic crisis.** In the immediate aftermath, India became one of the last important WB borrowers to partake of **structural adjustment lending**, which **supported policy reforms in finance, taxation, and the investment and trade regime.**
- India is currently classified as a “blend” country — defined as one in **transition from lower middle-income to middle-income** — and is creditworthy for lending from both IDA and IBRD.
- India is the largest IBRD client of the World Bank. Between 2015 and 2018, the World Bank lent around \$10.2 billion to India.

- The World Bank Group (WBG) has approved a \$25-30 billion commitment plan for India for the period 2019-22.
- **MIGA Performance Standards** are environmental and social standards which help to structure and implement sustainable projects. For Indian market, one of the options is a **breach of contract insurance** which MIGA would offer to investors. **In case the government doesn't perform its obligation**, under the contract arrangement, **then MIGA can come and cover that risk for investment.**

Difference Between IMF and World Bank

BASIS FOR COMPARISON	IMF	WORLD BANK
Meaning	An international organization maintaining the global monetary system is the International Monetary Fund.	A global organization established to finance and advice the developing nations, in order to make them economically developed is World Bank.
Focus on	Economic Stability	Economic Growth
Organizational Structure	It is a single organization with four credit lines.	Comprises five institutions
Membership	190 countries	189 countries (IBRD) 174 countries (IDA)
Operations	Provides assistance	Facilitates lending
Objective	To deal with all the issues related to the financial sector and macroeconomics.	To lessen poverty and promote the long term development of the economy.

World Trade Organization (WTO)

- **Formation:** 1 January 1995
- **Purpose:** Reduction of tariffs and other barriers to trade
- **Headquarters:** Centre William Rappard, Geneva, Switzerland
- **Membership:** 164 members (160 UN member states, the European Union, Hong Kong, Macao, and Taiwan)

India and WTO

- India has been a member of the **WTO since January 1995** and also had been a member of the **WTO's forerunner General Agreement on Tariffs and Trade (GATT)** since July 1948. As a developing country, India has played a significant role in the proceedings of the WTO, especially in voicing its own concerns and also of the entire developing world.
- In the Doha WTO conference that took place in 2001, India emerged as the most outspoken of advocates for the developing bloc. The meeting was declared a success since the delegates of 142 countries agreed to a new round of trade talks, including topics such as environment, competition and investment.

Functions of WTO

The following are the six broader functions of WTO:

- Administering WTO trade agreements
- Providing forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries and
- Cooperation with other international organisations.

Ministerial Conference of WTO

1	9th to 13th December 1996	Singapore
2	18th to 20th May 1998	Geneva, Switzerland
3	30th November to 3rd December 1999	Seattle, United States
4	9th 14th November 2001	Doha, Qatar
5	10th to 14th September 2003	Cancún, Mexico
6	13th 18th December 2005	Hong Kong
7	30th November to 2nd December 2009	Geneva, Switzerland
8	15th 17th December 2011	Geneva, Switzerland
9	3rd to 6th December 2013	Bali, Indonesia
10	15th to 18th December 2015	Nairobi, Kenya
11	10th to 13th December 2017	Buenos Aires, Argentina
12	12th to 16th June 2022	Geneva, Switzerland

Regional Economic Co-Operations

European Union:

- **Founded:** 1 November 1993, Maastricht, Netherlands
- **Awards:** Nobel Peace Prize (2012), Princess of Asturias Award for Concord, Bambi - Millennium Award
- **Subsidiary:** MEDIA sub-programme of Creative Europe
- **Member:** 28 (The EU countries are: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and "Croatia The country became the 28th EU member country on 1 July 2013".)

Eurozone

- **Currency:** Euro
- **Established:** 1 January 1999
- **Member:** Eurozone is an economic union comprised of 19 of the 28 EU member states

SAARC

- **SAARC Established in:** 1985 (December 8), Dhaka (Bangladesh)
- **Number of Member Countries in SAARC:** 8 Countries – India, Bangladesh, Nepal, Sri Lanka, Maldives, Bhutan, Afghanistan, Pakistan.
- **Number of Observers in SAARC:** 9 Observers – Australia, European Union (E.U), Iran, Japan, Mauritius, South Korea, United States of America (USA), China, Myanmar.
- **SAARC Headquarters:** Kathmandu, Nepal

ASEAN

- **Headquarters:** Jakarta, Indonesia
- **Founded:** 8 August 1967, Bangkok, Thailand
- **Members:** 10 (Indonesia, Philippines, Malaysia, Thailand, Singapore, Brunei, Vietnam, Laos, Cambodia, and Myanmar)

OPEC

- **Headquarters:** Vienna, Austria
- **Founded:** September 1960, Baghdad, Iraq
- **Current Members:** Algeria, Angola, UAE, Venezuela, Saudi Arabia, Republic of Congo, Libya, Nigeria, Kuwait, Iran, Iraq, Gabon, Equatorial Guinea
- The Organization of the Petroleum Exporting Countries is a cartel of 13 countries.

NAFTA (North American Free Trade Agreement)

- **Established:** 1994

- The North American Free Trade Agreement (NAFTA) trade between the **U.S., Mexico, and Canada.**
- NAFTA reduced or eliminated tariffs on imports and exports between the three participating countries, creating a huge free-trade zone.

APEC

- **Headquarters:** Jakarta, Indonesia
- **Founded:** 8 August 1967, Bangkok, Thailand
- **Members:** 10 (Indonesia, Philippines, Malaysia, Thailand, Singapore, Brunei, Vietnam, Laos, Cambodia, and Myanmar)
- APEC: The Asia-Pacific Economic Cooperation (APEC) is a regional economic forum, founded in 1989, to capitalise on the Asia-Pacific region's growing interconnectedness. The 21 members of APEC want
- to increase regional prosperity by fostering balanced, inclusive, sustainable, creative, and secure growth and by speeding regional economic integration.

G7

- **Established:** 1975
- **Members:** Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States
- **Goal:** The G-7's main goal is to debate, and occasionally act in concert to help resolve, global challenges, with a particular emphasis on economic difficulties.
- **Headquarters** No Permanent Secretariat or Office.

G-20:

- **Formed:** 1999
- **Goal:** to bring governments from developed and developing countries together to address major issues concerning the global economy and financial stability.
- **Members:** Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union are all members of the G20.
- The G-20 membership is made up of the world's greatest advanced and emerging nations, comprising over two-thirds of the global population, 85% of global GDP, and more than 75 per cent of global trade.

OECD:

- **Headquarters:** Paris
- **Established:** 1961
- **Members:** 36
- **Purpose:** The Organization for Economic Co-operation and Development (OECD) is an intergovernmental economic organisation, to promote economic advancement and global commerce.

Mercosur:

- **About:** Mercosur is a Latin American trade bloc
- **Members:** Brazil, Argentina, Paraguay, Uruguay, and Venezuela.
- **Established:** 1995
- **Purpose:** A common space that provides business and investment possibilities via the competitive integration of national economies into the world market.

IORARC:

- **Established:** 1997
- **Members:** 22 member states and 9 conversation partners.
- **Purpose:** Vibrant inter-governmental organisation focused at fostering regional cooperation and sustainable development in the Indian Ocean area

RCEP:

- The Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement (FTA) among the 10 ASEAN member countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and their five **FTA partners (Australia, China, Japan, New Zealand and Republic of Korea)**.
- The RCEP was built upon the existing ASEAN+1 FTAs with the spirit to strengthen economic linkages and to enhance trade and investment related activities as well as to contribute to minimising development gap among the parties.

BIMSTEC:

- BIMSTEC is a multilateral regional organisation established with the **aim of accelerating shared growth and cooperation between littoral and adjacent countries in the Bay of Bengal region**. It has a total of seven member countries- five from South Asia, including Bangladesh, Bhutan, India, Nepal, and Sri Lanka, and two from Southeast Asia, including Myanmar and Thailand.
- It was founded as BISTEC, in June 1997 and with the adoption of the Bangkok Declaration, with Bangladesh, India, Sri Lanka and Thailand as members, it became BIMSTEC.

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