

INTERNATIONAL BUSINESS AND TRADE

UNIT-5

PART-I

World bank

The world bank is internationally recognized and supported that provides technical and financial assistance to many developing countries in the world. Also, it aids their advancement, in an economy with a primary goal of reducing poverty. World bank has the largest knowledge of developing countries. Also, they are the largest source when it comes to funding.

There are some of the facts that you should know about world bank for the preparation of your competitive exams. They are:

- Jim Yong Kim is currently the president of the world bank.
- Currently, the membership of the world bank is given to 189 countries under IBRD and 173 countries under IDA.
- Organizations like MIGA, IFC, and ICSID manages the World bank
- Also, the world has it's headquarters situated in Washington DC and has more than 10000 staff all over the world.
- So, the formation of world bank was done Bretton Woods committee that was held in 1944.
- Alongside the IMF, it was launched in the presence of many important delegates.

Functions of the World Bank

- It helps the war-devasted countries by granting them loans for reconstruction.
- Thus, they provide extensive experience and the financial resources of the bank help the poor countries increase their economic growth, reducing poverty and a better standard of living.
- Also, it helps the underdeveloped countries by granting development loans.
- So, it also provides loans to various governments for irrigation, agriculture, water supply, health, education, etc.
- It promotes foreign investments to other organizations by guaranteeing the loans.
- Also, the world bank provides economic, monetary, and technical advice to the member countries for any of their projects.
- Thus, it encourages the development of of-industries in underdeveloped countries by introducing the various economic reforms.

Objectives of the World Bank

- This includes providing long term capital to its member nations for economic development and reconstruction.
- Thus, it helps in inducing long term capital for improving the balance of payments and thereby balancing international trade.
- Also, it helps by providing guarantees against loans granted to large and small units and other projects for the member nations.
- So, it ensures that the development projects are implemented. Thus, it brings a sense of transparency for a nation from war-time to a peaceful economy.
- Also, it promotes the capital investment for member nations by providing a guarantee for capital investment and loans.
- So, if the capital investment is not available then it provides the guarantee and then IBRD provides loans for promotional activities on specific conditions.

Purposes of the World Bank

- It wants to create an environment that is a pro-investment.
- Also, it wants to improve the economic stability by reducing poverty.
- So, it is working towards achieving sustainable growth.
- Increasing the opportunities for jobs and business in member nations which are underdeveloped.
- Through investment, it plans to promote the socio-economic status of the society.
- Also, it wants to ensure that the judicial and legal systems are developed and individual rights are protected.
- Strengthen the government of its member nations by promoting education.
- Combating corruption and to ensure that there are adequate training opportunities and research facilities.
- It wants to provide loans with low-interest rates and interest-free credits.

IMF and World Bank

The World Bank and the IMF performs different functions, but they are often confused with each other either with reference to their functions or with their operation. We are therefore, trying to clearly mark the points of difference between these two. You must remember that the name World Bank does not refer to a bank in conventional sense (this is because it performs development function). And International Monetary Fund or IMF performs the lending function (which we associate with banks).



History of IMF and World Bank:

- The Great Depression of 1930s led to failure of several economies as a result the gold standard for valuation of currencies (where currencies were back by gold) dissipated.
- Nations raised trade barriers, and devalued their currencies to compete against each other, in the export markets.
- These factors led to a decline in world trade, which caused high unemployment, and sharp drop in living standards across many countries.
- The Bretton Woods Conference after World War II in 1944, established a new international monetary system.
- The international Bank for Reconstruction and Development (now called the World Bank) and the International Monetary Fund (IMF) were established with different mandates.
- Both these IMF and World Bank are also known as '**Bretton Woods Twins**'.

Let us study the details of both on a comparative basis. This will clear the air about confusion regarding both these institutions.

Structure and Size of World Bank and IMF:

The World Bank:

- 188 countries member.
- The World Bank has two major organizations in it: The International Bank for Reconstruction and Development and the International Development Association (IDA).
- Headquarters: Washington, D.C.
- It has 7,000 staff members, and it is about 3 times as large as the IMF.

The International Monetary Fund:

- 188 countries member.
- Headquarters: Washington, D.C.
- It has 2,300 staff members.

Functions of IMF & World Bank:

The World Bank functions:

- The World Bank promotes economic and social progress in developing countries. It helps these countries to raise productivity to enable people to live a better and fuller life.
- Therefore, its primary mandate is to finance economic development.

The International Monetary Fund functions:

- The IMF is basically a lending institution which gives advances to members in need.
- It is the mentor of its members' monetary and exchange rate policies.
- To maintain the stability in Exchange rate system around the World.

Operations of IMF and World Bank:

The World Bank operations:

- It works to encourage poor nations to develop, by providing technical assistance and funding for their projects and that will help realize the nations' economic potential.
- It endeavors to achievement direct involvement of the poor in the economic activity, through agriculture and rural development, small-scale enterprises, and urban development lending.
- Since the World Bank's lending decisions depend on the economic condition of the borrowing country, it carefully analyses the economy and needs of the sectors for which lending is contemplated. These studies help in formulation of an appropriate long-term development assistance strategy for the economy of the concerned country.

International Monetary Fund	World Bank
Oversee the international monetary systems and promotes international monetary cooperation.	Seeks to promote economic development and structural reforms in developing countries.
Promote exchange stability and orderly exchange relations among its members.	Assists developing countries by providing long-term financing of development projects and programmes.
Assists members in temporary BOP difficulties by providing them with the opportunity to correct maladjustments in their BOP.	Provides special finance assistance to the poorest developing countries through the IDA.
Supplements the reserves of its members by allocating SDBs if there is a long-term global need.	Stimulates private enterprise in developing countries through its affiliate, the International Finance Corporation.
Draw its financial resources principally from the quota subscriptions of its members.	Acquires most of its financial resources by borrowing on the international bond market.

The International Monetary Fund operations:

- It primarily urges its members to allow their currencies to be exchanged without any restriction for the currencies of other member countries of IMF.
- The IMF supervises economic policies that influence the balance of payments in member's' economies. This provides an opportunity for early warning of any exchange rate or balance of payments problem in its member nations.

- It provides short- and medium-term financial assistance to its member nations which run into any temporary balance of payments difficulties. This financial assistance involves the option of convertible currencies to alter the affected member's troubled foreign exchange reserves. It is done only in return for that government's promise to reform their economic policies that have caused the said balance of payments problem.

The World Bank Group is an international partnership comprising 189 countries and five constituent institutions that works towards eradicating poverty and creating prosperity.

The five development institutions under the World Bank Group are:

1. International Bank for Reconstruction and Development (IBRD)
2. International Development Association (IDA)
3. International Finance Corporation (IFC)
4. Multilateral Guarantee Agency (MIGA)
5. International Centre for the Settlement of Investment Disputes (ICSID)

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