

INTERNATIONAL BUSINESS AND TRADE

UNIT-5

PART-II

World Bank Group History

The United Nations Monetary and Financial Conference, also known as the **Bretton Woods Conference** held in 1944 led to the formation of the International Monetary Fund (IMF in 1945) and the International Bank for Reconstruction and Development (IBRD in 1944).

- The original focus of the IBRD was the reconstruction of countries ravaged by the Second World War through loans.
- Gradually, there was a shift from reconstruction to development with a particular emphasis on infrastructure, power grids, roads and transportation, dams, etc.
- The other institutions such as the IDA, IFC, etc. were formed over the years and all five institutions (IBRD, IDA, IFC, MIGA, and ICSID) came to be called the World Bank Group.
- Currently, the group engages in multifarious activities through its institutions and funds.
- There is a special focus on developing and underdeveloped countries.
- The infographic above shows the brief functions and the year of formation of the five institutions.

The WBG is one of the world's largest sources of funding and knowledge for developing nations. Its five institutions share a commitment to decreasing poverty, enhancing shared prosperity, and boosting sustainable development.

The WBG is headquartered in Washington, D.C. The World Bank Group is a specialized agency of the United Nations.

World Bank Group Membership

- To join the World Bank Group, a country must first become a member of the IMF.

- To become members of the IDA, IFC, and MIGA, the countries must first become members of IBRD.
- Membership of the ICSID is subject to all the following conditions:
 - IBRD membership
 - Party to the Statute of the International Court of Justice (ICJ)
 - Invitation of the ICSID Administrative Council by a vote of two-thirds of its members

The following section talks about the functions of the various institutions under the WBG.

International Bank for Reconstruction and Development (IBRD)

The IBRD calls itself a global development cooperative. It has a membership of 189 countries.

- It is the world's largest development bank.
- It provides loans, guarantees, advisory services, and risk management products to middle-income and creditworthy low-income countries.
- Middle-income countries represent more than 60% of the IBRD's portfolio.
- IBRD finances investments across all sectors and offers technical support and expertise at every stage of a project.
- IBRD deals only with sovereign governments and not private players.
- It also assists governments in augmenting the investment climate of countries, removing service delivery bottlenecks, and strengthening institutions and policies.
- IBRD sources most of its funds from the world's financial markets.

IBRD and India

- India is a founding member of IBRD.
- It started lending to India in 1949, the first project being undertaken for the Indian Railways.
- Since the 1960s, the IBRD is an important source of long-term funding for India.
- India is the largest IBRD client of the World Bank.

- India is a **blend country**, which means it is transitioning from a lower-middle-income to a middle-income country.
- India is eligible for loans from both the IBRD and the IDA.

International Development Association (IDA)

The main objective of the IDA is to provide grants and concessional loans to the world's poorest countries.

International Finance Corporation (IFC)

The IFC is a sister organization of the World Bank (IDA + IBRD). It is the largest international development institution focused on the private sector in developing countries.

- It functions as the private sector arm of the WBG.
- It works for economic development by investing in for-profit and commercial projects for poverty reduction and augmenting development.
- It also engages in mobilizing third-party resources for projects.
- The IFC works with the private sector to boost entrepreneurship and create sustainable businesses.
- The IFC provides investment, advice, and asset management offerings.
- It lends to businesses and private sector projects.

IFC and India

- India is a founding member of the IFC.
- Over the past few years, IFC has augmented its portfolio in India, improving profitability and investing in high impact projects.
- It is expanding its activities in the LIS (the Low Income States and the NE States) in India.
 - Improving the investment climate for private sector development and inclusive growth.

- Financial inclusion by focusing on microfinance institutions.
- Focus on renewable energy and cleaner production methods.
- Developing PPP transactions with a focus on social services (health and education) and climate change impact projects.

Multilateral Investment Guarantee Agency (MIGA)

MIGA's chief goal is to enhance cross-border investment in developing countries by giving guarantees (political risk insurance and credit enhancement) to lenders and investors.

- The agency's guarantees to protect investments against non-commercial risks.
- It emphasizes on Fragile and Conflict-affected States.
- Political risk insurance products:
 - Coverage against losses due to war, terrorism, and civil disturbance.
 - Coverage against expropriation by governments.
 - Coverage against breach of contract.
 - Protection against losses arising from an inability to legally convert local currency into hard currency.
- Credit enhancement – protection when governments fail to honor financial obligations.
- India became a member of the MIGA in 1994.

International Centre for Settlement of Investment Disputes (ICSID)

ICSID engages in international investment dispute settlement.

- It settles disputes between investors and governments.
- It also settles state-state disputes under investment treaties and free trade agreements and acts as an administrative registry.
- The Centre provides for settlement of disputes by arbitration, conciliation, or fact-finding.
- It also disseminates information on international law on foreign investment.

- India is not a member of the ICSID because it claims that the ICSID's functioning and structure are biased towards the developed countries.
- India set up the BRICS Arbitration Centre (BRICS Centre) to address and reinforce international arbitrations with foreign investors. Although this is limited to the BRICS countries, it will be available for all developing countries in the future.

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