

LAST MINUTE
PRELIMS
RECKONER
2023

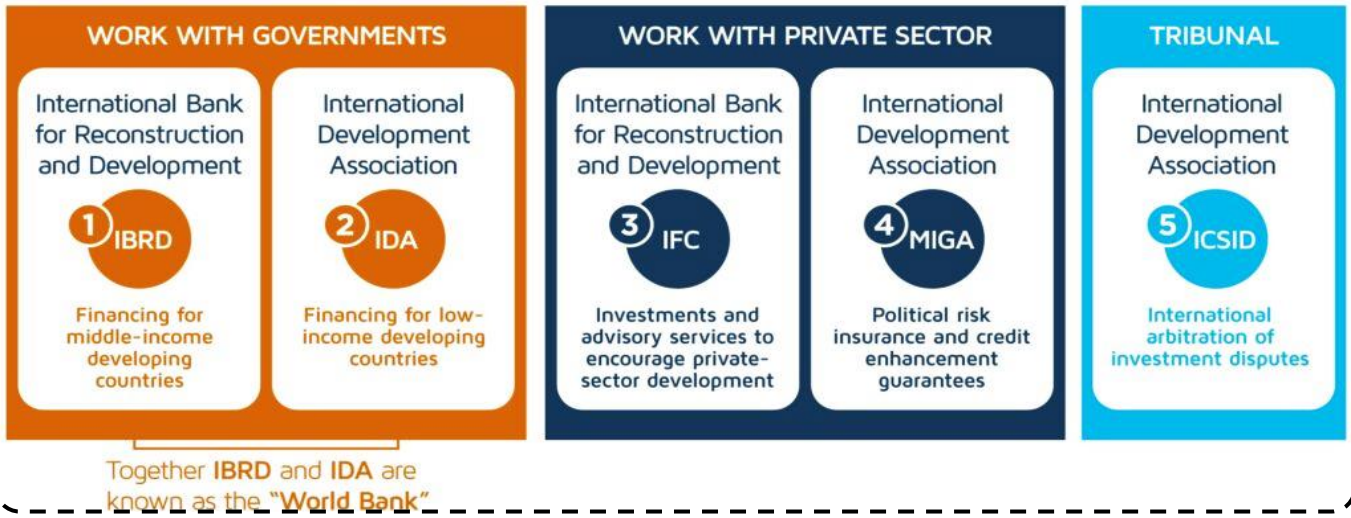
WORLD BANK & IMF

1. WORLD BANK GROUP



WORLD BANK GROUP

- Comprises 5 institutions
- Collectively, all 5 institutions are known as the "World Bank Group"



DID YOU KNOW ?

- ✓ The **Bretton Woods Conference**, officially the **United Nations Monetary & Financial Conference**, was a gathering of delegates from 44 nations that met in Bretton Woods, New Hampshire (USA), to agree upon a series of new rules for international financial and monetary order after the conclusion of World War II for post-war reconstruction efforts in Europe and Japan.
- ✓ **Bretton Woods Conference** led to the creation of **IBRD & IMF** in **1944**. IBRD – soon called the World Bank – has expanded to a closely associated group of five development institutions called the World Bank Group.
- ✓ To become a member of the World Bank (IBRD), a **country must first join the IMF**. Membership in IDA, IFC, and MIGA are conditional on membership in IBRD. Membership in ICSID is available to IBRD members, and those which are a party to the Statute of the International Court of Justice (ICJ).
- ✓ World Bank today has **189 members** and is headquartered in **Washington, D.C.**
- ✓ World Bank is run like a giant cooperative in which members are shareholders. Number of shares is roughly based on size of the economy. **Shareholder size & Voting Power:** USA > Japan > China > Germany > UK > France > India > Russia.

- ❖ **IBRD** = Finances sovereign govts directly or projects backed by govts; Focus on middle-income countries with per capita income ranges from \$1,026 to \$12,475; Raises most of its funds in the world's financial markets.
- ❖ **IDA** = Helps world's poorest countries by providing loans (called 'credits') and grants; Very low or Zero interest rates; Repayment periods stretched over 30 to 38 years, including a 5- to 10-year grace period; GNI should be < \$ 1,145; also provides grants to countries at risk of debt distress.
- ❖ **IFC** = Focused exclusively on the private sector in developing countries; Raises virtually all funds through the issuance of debt obligations in international capital markets; Loans to businesses and private projects have a maturity of 5-7 years; No uniform interest rate but is based on risk of the project; via Global Trade Finance Program, the IFC guarantees trade payment obligations for emerging market banks against commercial risks.
- ❖ **MIGA** = Promote cross-border investment in developing countries by providing guarantees (political risk insurance and credit enhancement) to investors and lenders; Against non-commercial risk such as currency inconvertibility and transfer restriction, govt expropriation, war, terrorism, and civil disturbance, breaches of contract, and the non-honouring of financial obligations.
- ❖ **ICSID** = Provides for settlement of investor-State disputes by conciliation, arbitration or fact-finding; According to Article 53 of the ICSID Convention is final and binding and immune from appeal or annulment, other than as provided in the ICSID Convention.
- ❖ **Reports & Indices by WB** = Ease of Doing Business, World Development Report, Global Economic Prospect (GEP) Report, Logistics Performance Index, Remittance Report, Ease of Living Index, Universal Health Coverage Index. Human Capital Index.

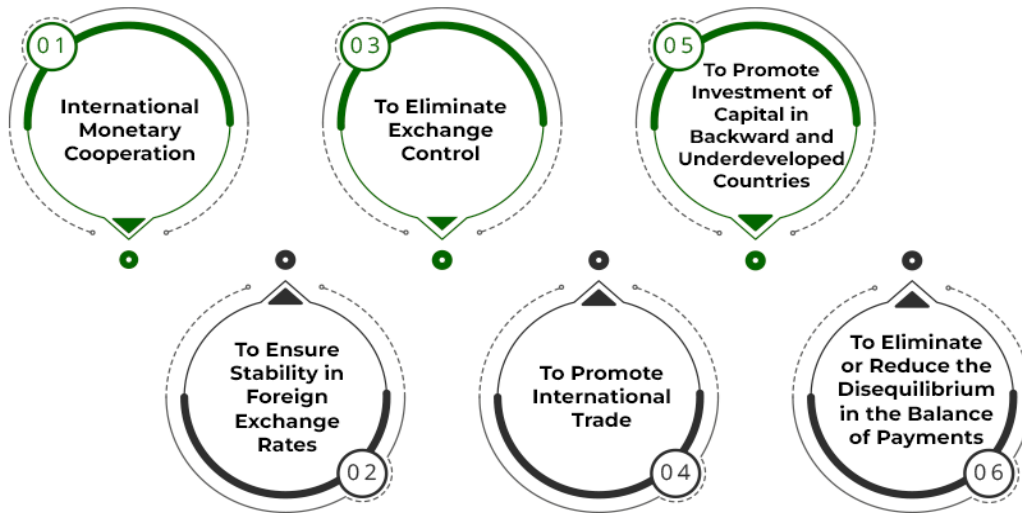


INDIA & WORLD BANK GROUP

- ✓ India was **one of the 44 signatories** at Bretton Woods Conference that established IBRD & IMF in 1944. India was represented by 6 including **R.K. Shanmukham Chetty & C.D Deshmukh**.
- ✓ India is also a **founding member of IFC in 1956 and the IDA in 1960**. Though not a founding member, India joined MIGA in 1994. Till now **India is Not a member of ICSID**.
- ✓ 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**.

2. INTERNATIONAL MONETARY FUND (IMF)

Objectives of International Monetary Fund(IMF)



DID YOU KNOW ?

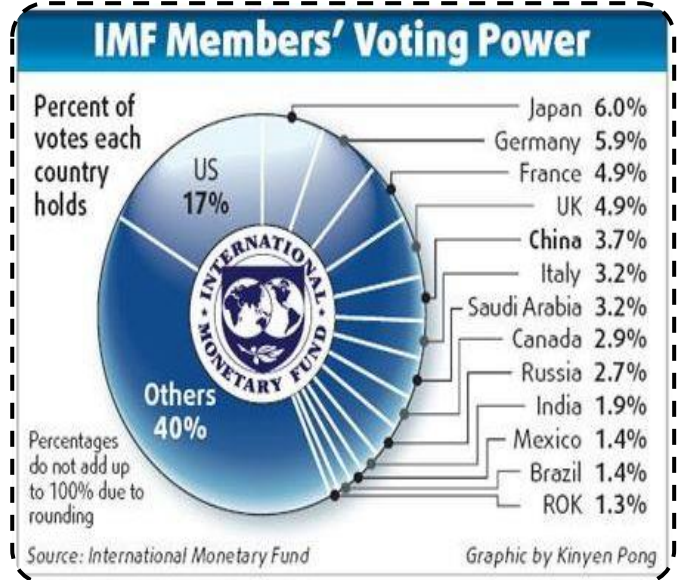
- ✓ IMF, also known as the Fund, was conceived at the 1944 UN conference in Bretton Woods, USA. Countries have to be members of IMF to be eligible for membership to World Bank.
- ✓ Bretton Woods System of convertible currencies at fixed exchange rates introduced by IMF collapsed in 1971 after which IMF promoted the Floating exchange rate system, which is in place even now.
- ✓ **Functions of IMF include:**
 - 1) *Provide Financial Assistance:* to countries facing Balance of Payments (BoP) problems.
 - 2) *Surveillance:* economic & financial policies of its 190 member & highlight possible risks to stability.
 - 3) *Capacity Development:* technical assistance and training to central banks, finance ministries, tax authorities and help countries progress towards SDG goals.
- ✓ **Governance Setup of IMF:** At the top of the organisational structure is the **Board of Governors** (each member country appoints 2 governors). The day-to-day work of the IMF is overseen by its 24-member **Executive Board**, which represents the entire membership and is supported by IMF staff. Board of Governors is advised by 2 ministerial committees, the **International Monetary and Financial Committee (IMFC)** and the **Development Committee**. The **Managing Director** is the head of the IMF staff and Chair of the Executive Board. She/he is assisted by four Deputy Managing Directors.
- ✓ **IMF Membership:** Any other state, whether or not a member of the UN, may become a member of the IMF. Each member country contributes a certain sum of money, called a **Quota Subscription** expressed in SDR. **Members' voting power** is related directly to their **quotas**.



INDIA & IMF

- ✓ India is a **founder member** of the IMF.
- ✓ In the post-partition period, India took IMF bailouts 7 times. In 1965 & 1971, the Fund granted India loans to meet the financial difficulties arising out of the Indo-Pak conflict. In 1981, India was given a massive loan of about Rs. 5,000 crores. India has not taken any financial assistance from the IMF since 1993. Repayment of all loans taken was completed in May 2000.

- ✓ The **Finance Minister** of India is the **ex-officio Governor** on the Board of Governors of the IMF. **RBI Governor** is the **Alternate Governor** at the IMF.
- ✓ India's current quota in the IMF is SDR 5,821.5 million, making it the **13th largest** quota holding country at IMF and giving it **shareholdings of 2.44%**.



SPECIAL DRAWING RIGHTS (SDR)

- ✓ The SDR is an **international reserve asset**, created by the IMF in **1969** to supplement its member countries' **official reserves**. To date, a **total of SDR 660.7 billion (equivalent to about US\$943 billion)** have been allocated.
- ✓ The value of the SDR is based on a **basket of five currencies**—the **U.S. Dollar, the Euro, the Chinese Renminbi, the Japanese Yen, and the British Pound Sterling**. The SDR basket is reviewed every five years.

SDR allocations: what are they and how are they used?



What is an SDR?
Special Drawing Rights (SDRs) are international reserve assets created by the IMF to supplement the official reserves of member countries. The value of an SDR is based on a basket of five currencies.

How are SDRs used?

SDRs are allocated to IMF member countries in proportion to their relative share in the IMF. Countries can exchange SDRs for hard currencies with other IMF members.



Fast Facts About the IMF

1944 Year the IMF was established

\$1 trillion Total amount the IMF is able to lend to its member countries

190 Member countries

29 Current lending arrangements

150 Nationalities represented by staff

80 Countries that received emergency financing as of January 29

24 Executive Directors representing 190 member countries

0% Interest rate on loans to low-income countries

\$303 million For hands-on technical advice, policy-oriented training, and peer learning