



# CURRENT AFFAIRS PROGRAM

## PRE CUM MAINS 2024

### DEC 2023: BOOKLET-3

#### TABLE OF CONTENTS

<b>1. General Studies – 2 .....</b>	<b>1</b>
1) SAARC .....	1
2) BIMSTEC.....	5
3) World Bank Group.....	11
4) international Monetary Fund (IMF) .....	14
A) SDR (Understand for Prelims) .....	18

### 1) SAARC

- **Why in news?**
  - The year 2023 marked the 9<sup>th</sup> year since the last SAARC Summit (Sep 2023)
- **Past Year Questions** (only relevant ones)
  - i. "Increasing cross-border terrorist attacks in India and growing interference in the internal affairs of several member-states by Pakistan are not conducive for the future of SAARC (South Asian Association for Regional Cooperation)" Explain with suitable examples. [Mains 2016] [12.5 marks, 200 words]
- **Example Questions**
  - i. "Revival of SAARC is in the interest of the whole of South Asia" Elaborate. [10 marks, 150 words]
  - ii. What are the key objectives of SAARC? Why has it failed to achieve those objectives? [12.5 marks, 200 words]
  - iii. SAARC has been a case of 'Retarded Regionalism'. Discuss key causes and consequences for this. [15 marks, 250 words]
  - iv. "Power asymmetry and lack of common strategic thinking, make South Asia an unusually fragile strategic environment where genuine cooperation is impossible" Critically Analyze [12.5 marks, 200 words]
  - v. "Despite having historical, cultural and social bonds, the South Asia remains one of the most polarized and divided regions of the world" Discuss the key reasons. [12.5 marks, 200 words]
- **Important Quotes**
  - "I dream of a day, while retaining our respective national identities, one can have breakfast in Amritsar, lunch in Lahore and dinner in Kabul. That is how my forefathers lived. That is how I want our grandchildren to live": Former PM Of India Dr. Manmohan Singh
- **Introduction**
  - SAARC is a major Pan-South-Asia economic and geopolitical organization of eight countries located in South Asia. It was found in 1985 with **seven South Asian countries** - Bangladesh, Bhutan, India, Nepal, Pakistan, Sri Lanka and Maldives. The membership grew to eight when Afghanistan joined in 2007. It also has 8 observer countries including China.
    - Pakistan has proposed inclusion of China as full members. Myanmar is also interested in full membership.
  - It's headquartered in **Kathmandu, Nepal**.
  - The SAARC countries together consist of only 3% of the world's land area but, 21% of the world's population. Moreover, 40% of the world's poor live in the region.



- The SAARC is aimed at achieving two set of goals:
  - i. First, the **immediate and non-political** aims such as promoting welfare of people; accelerating economic growth, social progress and cultural development; and strengthening collective self-reliance to contribute to mutual trust and understanding among member nations.
  - ii. Second, relates to **the long term, political** objective of creating a **durable, stable and peaceful regional order**, strengthening cooperation with other developing countries and cooperating with international and regional organizations.
- **Potential of SAARC grouping/ Why SAARC is significant?**
  - **Promoting Regional Cooperation**
    - South Asia is one of the world's **least integrated region** and SAARC was expected to play a significant role in increasing this integration. That is why the founding principle of the SAARC was that *together South Asia had a greater chance of fighting its shared ills.*
  - **Increasing intra-regional trade and investment:** With 1/5th of the world's population, South Asia has abysmally low intra-regional trade (around 5%). There is a lot of scope for increasing investment, tourism and services and commodity trade. For e.g. in ASEAN (intra regional trade is of 25%).
  - **Increasing connectivity**
    - Physical Connectivity -> Roads, Shipping lanes etc.
    - Increasing cultural cooperation
  - **Work around India-Pakistan tension to increase cooperation in the region**
  - SAARC is in sync with India's **neighborhood first policy**. Successful SAARC will go a long way in helping India achieve this policy goal. It is the only grouping where all 8 south Asian countries come together.
  - **Dealing with common threats in the region**
    - For e.g. **terrorism** can be dealt more effectively if cooperation in SAARC is effective.
  - **Tackling the growing influence of China**
    - As part of its global expansionism, China is chipping away at India's interest in South Asia.

- According to a study by Brookings India, most South Asian nations are now largely dependent on China for imports despite geographical proximity to India.
- **Nepal** is moving closer to China for ideational and material reasons.
- **Bangladesh** is being wooed by China by offering of tariff exemption to 97% of the BD products. Similarly, China has intensified its ties with **Sri Lanka** through massive investments.
- A unified South Asian Platform remains India's most potent countermeasure in dealing with this Chinese challenge.
- In an era of **deglobalization**, improved connectivity and trade in South Asia can serve as the "Goldilocks option".
- **Summits**
  - » The first SAARC Summit took place in **Dhaka in 1985**, and there have been 18 summits since then.
  - » However, the organization hasn't had a smooth sail, with many summits getting postponed for political reasons, either bilateral or internal.
    - **18th SAARC summit** was held in Kathmandu in November 2014
    - **19th summit** was supposed to be held in 2016 in Pakistan, but the summit was boycotted by India and other SAARC countries on grounds of increasing cross border terrorism from Pak. **Since then, the SAARC summit has not been held.**
- **What has SAARC achieved? / Has SAARC been a failure?**
  - » SAARC had chalked out areas of cooperation. It has played an important role in easing trade barriers between the member countries. It is also credited for laying down the ground work for improved political ties, and for fostering closer socio-economic cooperation among its member countries.
- However, the **mismatch between SAARC's ambitions and achievements have been profound**.
  - » Various agreements and institutional mechanisms established under SAARC, has not been adequately implemented. For e.g. SAFTA was signed in 1994 and came into effect in 2006, but it is yet to be implemented. Similarly the motor vehicle agreement couldn't be signed in 2014 summit.
  - » There has been no major economic or political benefit that has been realized by SAARC. Thus analysts have termed its performance as a case of '**Retarded Regionalism**'.
  - » The intra-regional trade remains a meagre 5%.
  - » The cooperation of social and economic sector has been miniscule.
  - » The region still faces security challenges like terrorism, illegal trafficking etc.
  - » India's problems with Pakistan on terrorism, territorial claims, and on its role in blocking SAARC initiatives on connectivity and trade are well known.
- **Limitation of the SAARC Process / Factors which led to SAARC not being able to achieve much of cooperation:** A number of factors including the motives of SAARC's formation, its structure, its mandate, working methods, and the relationship among member states have all been responsible for making SAARC a '**Zombie**' organization:
  1. **SAARC was an UNWANTED Child**
    - » **Negativity** is associated with SAARC since its origin

- **India** was initially reluctant to be part of SAARC as the body started as an attempt to counter India by other south Asian countries.
- **Pak was also reluctant** as it wanted to give up on its South Asian Identity and get more integrated with the Islamic world of West Asia. Moreover, it was worried about SAARC becoming an India dominated group.

## 2. Structural Problems

- One principle followed by SAARC is that no contentious bilateral issues are discussed, which pretty much rules out all key subjects.
  - Other principle which SAARC follows is that all decisions will be taken care by consensus, which given the Indo-Pak rivalry, exacerbated by the entry of Afghanistan, rendered any agreement a stupendously difficult exercise.
3. **Power Asymmetry** between India and other member countries in terms of **Geography, Economy, Military Strength, and influence in global arena** make the smaller countries apprehensive. When one of the constituents is too big and powerful compared to the rest, it will naturally affect the progress of the cooperation. The smaller countries perceive India as "Big Brother" and fear that it might use the SAARC to pursue hegemony in the region. Smaller countries have therefore been reluctant to implement various agreements under SAARC.
  4. **Lack of trust and bilateral tensions** among member nations - especially between **India and Pakistan**
    - The organization have not been able to isolate itself from the ill-effects of India-Pak tension. In particular, the lingering Kashmir dispute has become a significant obstacle in regional integration.
    - According to scholars like **C Raja Mohan and Rajeev Sikri**, the SAARC process has succumbed to the rivalry b/w India & Pak. As long as India and Pak relations doesn't improve, nothing can be done on SAARC.
    - Further, territorial and water disputes between member countries hinder the cooperation in South Asia.
  5. **A failure in the area of security cooperation**
    - For instance - while cross border terrorism emanating from Pakistan is a major concern for India, Pakistan has failed to address this concern. This has become the key reason for no progress on SAARC.
  6. **Lack of dispute resolution mechanism**
    - SAARC doesn't have any arrangement for resolving disputes or mediating conflict which hampers consensus building and thus slows down the decision-making process.
  7. **Other Inherent weaknesses of SAARC: Political stability** in member countries.
  8. **Good Steps which could not be properly implemented**
    - South Asia Preferential Trade Agreement (SAPTA) was signed in the 7th summit at Dhaka in 1993, but it has not yet been adequately operationalized.
    - Other proposal to establish South Asian Food Reserve and South Asian Development Fund have also has not been implemented.
    - Similarly, declaration on enhancing political cooperation and promotion of mutual trust and understanding reiterated in each summit have registered little success.

9. **SAARC faces shortage of resources**, and countries have been reluctant to increase their contributions.

- **Has the SAARC Lost its utility?**

» No, it has tremendous utility.

- But it has been held hostage by Pakistan. Any significant progress under SAARC was stymied by it and they have continuously vitiated the atmosphere by bringing in the bilateral issues which is not allowed by SAARC.

- **Future of SAARC:** An organization can only be useful if member states share the view that it meets, or at least has the potential to meet, their respective interests.

» **Way forward**

- **Deal with trust deficit:** Member countries need to put more attention towards developing trust towards each other which would set the basis for regional integration.
  - Along with official talks, track-2 diplomacy can be used for the purpose.
- **Take steps to re-initiate the process.**
  - This would take political will from all the countries as well as **steps by Pakistan to control the terrorism** emanating from its soil. .
- **Revive the process of South Asian Economic Integration:** Deeper regional economic integration will create greater interdependence with India acquiring the central role, which, in turn, would serve India's strategic interest.
- **Increased Connectivity:** Connectivity is prerequisite for the prosperity of the region.
  - Construction of the proposed BBIN corridor will be landmark step towards this.
  - Similarly, construction and development of ports will benefit SAARC as it benefitted EU in past.
- And if nothing works, India should look at **enhancing regional cooperation by considering SAARC ( minus Pakistan)** as an option.
- **Deal with domestic challenges** which hinders cooperation in South Asia.
  - **Divisive domestic politics** with anti-Pak rhetoric and recurrent 'Bangladeshi migrant' rhetoric influence foreign policy in an undesirable manner. It dents India's soft power of being a liberal and secular democracy, which gives moral legitimacy to India's leadership in the region.

- **Conclusion**

- » Considering the limitations faced by SAARC for now, it is very natural for India to gravitate towards BIMSTEC, which acts as a bridge between South Asia and South East Asia. But in the process, the efforts put towards regional integration under SAARC should not be ignored. Crucial regional problems like terrorism, drug trafficking etc. have their origin in Pakistan and therefore a regional cooperation effort should include Pakistan.
- » **BIMSTEC cannot replace SAARC** for reasons such as lack of a common identity and history among all BIMSTEC members. Moreover, BIMSTEC's focus is on the Bay of Bengal region, thus making it an inappropriate forum to engage all South Asian nations.
- » India should view SAARC as a unit which has common future, and as a force-multiplier for India's ambition on the global stage.

## 2) BIMSTEC



- **Why in news?**

- » S Jaishankar attends BIMSTEC Foreign Ministers meet (July 2023)

- **Example Questions**

- » Discuss the significance of BIMSTEC in fostering regional cooperation and addressing common challenges in South Asia and southeast Asia. Suggest potential areas of improvement and measures needed to enhance the role of BIMSTEC in the evolving geopolitical landscape of the region. [15 marks, 250 words]
- » "BIMSTEC can be a game changer for growth and development of North-East India" Elaborate. [10 marks, 150 words]
- » Do you think BIMSTEC provides more potential for regional integration, including physical connectivity and economic cooperation when compared to SAARC? Give reasons [10 marks, 150 words]

- **Important Quotes**

- "For India, it (BIMSTEC) is a natural platform to fulfill our key foreign policy priorities of 'Neighborhood First' and 'Act East'": PM Modi

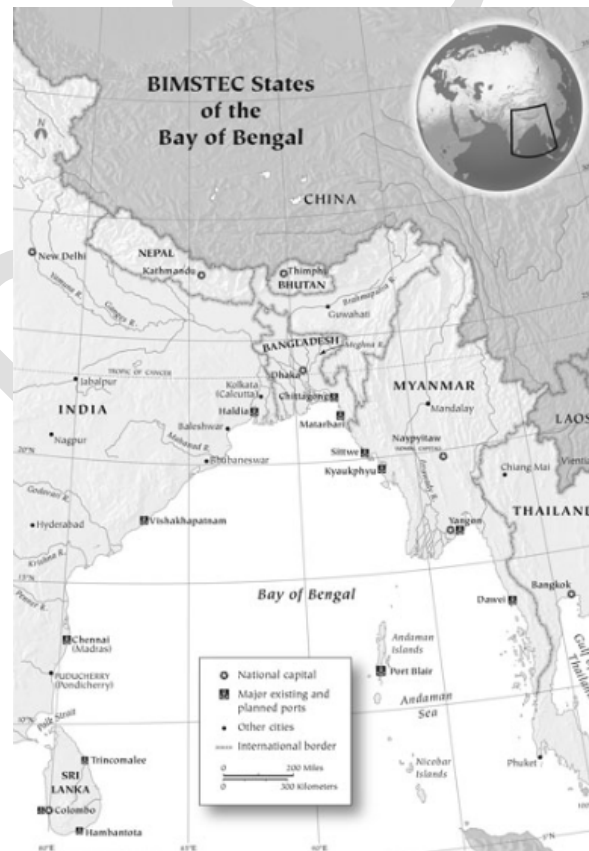
- **Intro**

- » BIMSTEC is a regional organization of **7 member states** (Bangladesh, India, Sri Lanka, Thailand, Nepal, Bhutan and Myanmar) from South Asia and Southeast Asia that lie in littoral and adjacent areas of Bay of Bengal.

- » **Basic details** (Important for Prelims)

- It came into being on June 6, 1997 (as BIST-EC - Bangladesh-India-Sri Lanka - Thailand Economic Cooperation) through the **Bangkok declaration**. It was later rechristened as BIMSTEC.
- It is headquartered in Dhaka.
- It is a unique link between South-Asia and South-East Asia. From the very beginning, it has been considered a powerful mechanism to promote opportunities for trade, investment and tourism between these two regions. Societies within BIMSTEC are pluralistic; our languages are rich and diverse, and we have a shared cultural heritage

- **The Objective** of the alliance is to harness accelerated growth through mutual cooperation in different areas of common interest by mitigating onslaught of globalization and by utilizing regional resources and geographical advantages.



- It is based on **two basic principles**.
  - i. To respect the principle of sovereign equality, territorial integrity, political independence, non-interference in internal affairs, peaceful-coexistence and mutual benefits.
  - ii. **Constitute an addition to and not be a substitute** for bilateral, regional or multilateral cooperation involving member states.
- **Key Areas of Cooperation**
  - Unlike many other regional groupings, **BIMSTEC is a sector driven cooperative organization**.
    - » It has identified **7 sectors** (earlier there were 14 sectors, but in the fifth summit meeting it was rationalized to 7 sectors).
      - Of these 7 areas, **Security and energy** is led by India. It includes under it the erstwhile independent sectors of 'Counterterrorism and Trans-National Crime', 'Disaster Management', and 'Energy'.
      - **Other Areas** are - Trade, Investment and Development (Bangladesh); Environment and Climate Change (Bhutan), Agriculture and Food Security (Myanmar), People to People Contact (Nepal), Science Technology and Innovation (Sri Lanka) and Connectivity (Thailand)
- **BIMTEC's growth was hindered in the beginning because of:**
  - Lack of political will and collective effort.
  - South Asia's focus on SAARC
  - But, with the decline of SAARC, BIMSTEC has emerged as a very important grouping for regional connectivity in the region.
- **Significance of BIMSTEC for India**
  - **Regional Cooperation** (alternative to SAARC)
    - In the **absence of smooth functioning of SAARC**, the groupings like BIMSTEC can take forward regional cooperation further. Therefore, the main motivation in reinvigorating BIMSTEC is not to counter Pakistan but to enhance regional cooperation.
    - This regional cooperation can help us better deal with common problems like terrorism, disasters, poverty etc.
  - **Regional Connectivity - Also with Southeast Asia**
    - It acts as a **bridge between South and South East Asia** and represents a reinforcement of relations among these countries.
    - It acts as a platform for inter-regional cooperation between SAARC and ASEAN countries.
  - **Sync with India's foreign Policy**
    - It supports India's **Neighborhood first** and **Act East** policy.
  - **Developing North-East:**
    - BIMSTEC projects are crucial for **development of north-east India**. They will provide better connectivity, increased economic opportunities, more jobs and thus will decrease the alienation of the region.
    - Moreover, plans of Mountain Economy etc. will also help North-East India.
  - There are **economic similarities** between BIMSTEC countries
    - All 7 countries are **developing, highly growing economies**



- They have sustained average annual growth rates between 3.5% to 7.5% in recent years (exclude the COVID-19 year) .
- **Countering China in the region**
  - BIMSTEC provides India an opportunity to push constructive agenda and counter China's investments in a collective way.
- **BIMSTEC has more potential than SAARC**
  - **In the past**, India had spent more political capital and efforts to make SAARC work, than on BIMSTEC.
  - However, now we have come to realize that BIMSTEC provides more potential for regional integration, including physical connectivity and economic cooperation than SAARC which is dominated by India and Pakistan and thus naturally hamstrung by tensions between the two countries.
  - BIMSTEC has potential to be more successful as:
    - » **Better Cooperation and Trust:** Unlike SAARC, there is an attitude of cooperation, enthusiasm as:
      - There is no Pakistan to veto India's suggestions.
      - Member countries have generally cordial relationships, something patently missing among the SAARC countries.
    - » **Two influential regional players - no fear of domination by India**
      - Unlike SAARC BIMSTEC includes two major regional players - **India and Thailand.** This adds to the comfort of smaller neighbours by reducing the fear of dominance by one big power.
    - » **BIMSTEC countries have strategic interest in its growth:**
      - **Bangladesh** views BIMSTEC as a platform to position itself as more than just a small state on bay of Bengal.
      - **Sri Lanka** sees it as an opportunity to connect with Southeast Asia and serve as the subcontinent's hub for the wider Indo-Pacific region.
      - **Nepal and Bhutan** aim to connect with the Bay of Bengal region and escape their landlocked geographic positions.
      - **Myanmar and Thailand** want to connect more deeply with India to access its huge market.
      - **India** finds BIMSTEC as a tool for:
        - Increasing connectivity within south and southeast Asia. It is a natural platform to fulfil our key foreign policy priorities of 'Neighborhood First' and 'Act East'.
        - Pushing a constructive agenda to counter China's investment.
    - » **An opportunity to connect South Asia and ASEAN**
      - The BIMSTEC Is in **sync with India's Act East policy** and **Thailand's Look West Policy.** It also helps countries such as **BD, Nepal and Bhutan** to develop connectivity with ASEAN countries.
    - » **BIMSTEC provide more trade opportunities.**
      - The region include fastest growing economies in the world.

- Trade among the BIMSTEC countries have reached 6% in just a decade while it had hovered around 5% among SAARC countries since its inception.
  - » **Sector driven cooperation** allows better focus and less diversion.
  - » **More Chances of Expansion:** Sri Lanka has suggested inviting Indonesia, Malaysia and Singapore -> if this is done it would further lead to enhancement of the role that BIMSTEC can play.
  - » **Other members are also wary of China** and prefer **India's benign characteristics.**
- Therefore, it can be said that Bay of Bengal can emerge as vehicle of regional cooperation.
- India, which chafed at Pakistan's reluctance to allow progress under the SAARC framework, now has the opportunity to demonstrate that it can do a lot better in the Bay of Bengal.
  - The initiative could range from coastal shipping, terrorism and from the development of underwater resources in Bay of Bengal to protecting the marine environment.
- **Limitations/Difficulties faced by BIMSTEC:** In spite of a lot of potential, some concerns still remain in BIMSTEC
  - BIMSTEC doesn't have a lot of concrete achievement in more than 25 years of BIMSTEC history.
    - A major failure relates to the continuing inability to produce a **comprehensive FTA** - 19 years after signing of the framework agreement in 2004.
  - There is a **too much flexibility in the conduct of its process.**
    - Summits have been infrequent.
    - A charter was finalized only recently - during 5th Summit in March 2022
  - **Only limited progress has been made in terms of connectivity:**
  - Lack of financial resources with the secretariat has hindered the performance of the group.
    - For greater regional connectivity, more financial resources are needed.
    - The movement towards development of the BIMSTEC Development Fund is minimal.
    - No Progress on Blue Economy has been made in the grouping.
    - Business chambers and corporate leaders are yet to be engaged fully with the activities of BIMSTEC.
  - **Deterioration of relations** between Bangladesh and Myanmar due to Rohingya issue is also hindering the progress in BIMSTEC.
  - **Earlier, lack of leadership was a major concern.** But since 2016, India has taken a number of initiatives to promote the grouping.
- **5th BIMSTEC Summit**
  - » The 5th BIMSTEC summit was hosted by Democratic Socialist Republic of Sri Lanka in and from **Colombo** in hybrid mode on 30th March 2022.
    - **Theme "BIMSTEC - Towards a Resilient Region, Prosperous Economies, Healthy People".**
  - » **Key outcomes:**
    - BIMSTEC Leaders signed the **BIMSTEC Charter** and witnessed the signing of the **BIMSTEC Convention on Mutual Legal Assistance in Criminal Matters**, the MoU on the

Establishment of the BIMSTEC Technology Transfer Facility, and the MoU on Mutual Cooperation between Diplomatic Academies/ Training Institutions of BIMSTEC Member States.

- The summit saw considerable progress being achieved in the BIMSTEC connectivity agenda with the adoption of the '**Master Plan for Transport Connectivity**'.
- The summit also adopted the BIMSTEC Masterplan on Transport Connectivity, and the Rationalized Areas of Cooperation under BIMSTEC.

- The 14 areas of cooperation under BIMSTEC have been **rationalized to 7 areas of cooperation**.

» **The Chairmanship** of BIMSTEC was handed over to Thailand from Sri Lanka at the Summit.

- **1st ever Foreign Ministers' meeting of the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC)**

- Held in Bangkok, Thailand in July 2023
- India was represented by our foreign minister Dr. S Jaishankar.
- The meet focused on strengthening resilience and coordination among BIMSTEC members, reflecting the challenges that we all confront today.

- **Key Progress made by BIMSTEC:**

- **Adoption of a BIMSTEC charter** in 5th Summit in 2022. This gives the grouping a legal status.
- **Rationalization of priority area** from 14 to 7
- **Pledging of funds** to the operational budget to ensure actionable policy measures can be undertaken.
- **Signing of memorandum** on technology transfer, diplomatic training, and a master plan on connectivity - all of which are of important for grouping's future as aspirational countries in a region that has already become the gravitational centre of global geopolitics.

- **Way forward:** The developments so far under BIMSTEC have been encouraging. But to maintain the momentum and to strengthen BIMSTEC as a sustainable platform, following steps should be considered:

- Keep BIMSTEC away from politics that bedeviled SAARC.
  - India must not fall in the trap of putting geopolitics over economic, reducing BIMSTEC into just another geopolitical weapon for isolating Pakistan.
  - India should lead BIMSTEC with much broader, inclusive vision driven by economic merits of cooperation.
- We also need to hold the future summits in a timely manner.
- Member states also need to **commit significant resources** to strengthen the organization.
  - India which is already the largest contributor to BIMSTEC needs to further increase its contribution.
- **Timely Delivery of Projects:** Complete the infra projects -> Kaladan Multi-modal Project, IMT trilateral highway in a timely manner.
  - **Improved Connectivity** (Physical, digital and people-to-people) should be the mantra for increased cooperation within BIMSTEC. With connectivity comes integration, cooperation and development.
- **Ensure Tangible outcomes** which will motivate countries to concentrate on BIMSTEC

- **Finalize the FTA** which is being discussed to further increase the economic cooperation in the region.
- **Counter the impression** that BIMSTEC is an India-dominated bloc, a problem that we have faced for long in SAARC.
- **Use People-to-People Engagement** in deepening relations between BIMSTEC countries. This can be done through:
  - Academic/ Education Diplomacy
  - Tourism Diplomacy
  - Festival Diplomacy
  - Health and Medical Diplomacy
  - Publication Diplomacy
- **Conclusion**
  - The potential of BIMSTEC needs to be utilized to address the needs and requirements of the region, especially in the area of economic development. Given the fairly amicable relations between the member states of BIMSTEC, increasing its performance and its effectiveness is an achievable goal as long as countries exhibit enough political will and mutual respect.

### 3) WORLD BANK GROUP

- **Example Questions**
  - a. What are the main functions of the World Bank Group? Explain the role of five different organizations which constitute the World Bank Group? [150 words, 10 marks]
  - b. Discuss the organizations structure of World Bank. Why has India been clamouring for reforms? [250 words, 15 marks]
- **Introduction**
  - WBG is a family of five international organizations that make **leveraged loans to developing countries** and work towards sustainable solutions to reduce poverty and build shared prosperity in developing countries.
  - It is the largest developmental bank in the world and is also an observer at the United Nations Development Group (UNDG).
  - It is one of the Bretton Woods organization.
  - **History:**
    - It was founded in 1944 at the **United Nations Monetary and Financial Conference or the Bretton Woods Conference**, which was convened to establish a new, post-World War II international economic system.
    - It officially became operational in 1946.
    - **IMF and WB are called Bretton woods twins** as they were formed as a result of Bretton Woods Agreement.
  - HQ: Washington D.C.
- **Goals/ Mission**

- Ending extreme poverty and building shared prosperity
- The five organizations which form part of WBG are: IBRD, IDA, IFC, MIGA, and ICSID.
  - a. **International Bank for Reconstruction and Development (IBRD)**
    - Provides debts financing on the basis of sovereign guarantees.
  - b. **International Development Association (IDA)**
    - Provides concessional financing (interest free loans or grants), usually with sovereign guarantees;
      - ('Soft loan Window' -> as it gives concessional loans)
      - It is one of the largest source of credit for the world's poorest countries.
  - c. **International Finance Cooperation (IFC)**
    - Provides various forms of financing without sovereign guarantees, primarily to the private sector
  - d. **Multilateral Investment Guarantee Agency (MIGA)**
    - Provides insurance against certain types of risk, including political risk, primarily to the private sector.
      - It thus encourages private sector to invest in foreign developing countries.
  - e. **International Centre for settlement of Investment Disputes (ICSID)**
    - It helps private investors and foreign countries to work out differences when they don't agree.
    - Many Bilateral Investment Treaties also provide ICSID mechanism for dispute resolution.
    - Note:
      - India is not a member of ICSID and considers the convention biased in favor of developed countries.
      - For e.g. the Chairman of ICSID is the Chairman of World Bank. The chairman appoints the arbitrators too
- **Membership:**
  - To become a member of the Bank, under the **IBRD Articles of Agreement**, a country must join the International Monetary Fund (IMF). Presently, IBRD has 189 members.
    - Note: Currently, all member of IMF are also members of IBRD.
  - Membership of **IDA, IFC and MIGA** are conditional on membership in IBRD.
    - # Members: IDA (173); IFC (185); MIGA (182); ICSID (185);
- **World Bank:** The term "world bank" generally refers to just the IBRD and IDA, whereas the term WBG refers to all five institutions collectively.
  - **IBRD and IDA focuses on developing countries** in areas such as human development, infrastructure, environment protection, large industrial construction project, and governance.
  - They provide **loans at preferential rates to member countries**, as well as grants to the poorest countries.
- **Decisions Making Process:**
  - The bank runs like a **giant cooperative**, where its members are shareholders and is operated for the benefit of those using its service. The **number of shares of each country** is based on roughly the size of its economy.

- The US, Japan, and China are the largest shareholders. (Sep 2021)
  - i. United States - 16.53%
  - ii. Japan - 7.79%
  - iii. China - 4.49%
  - iv. Germany - 4.49%
  - v. United Kingdom - 4.31%
  - vi. France - 4.31%
  - vii. India - 3.71%
  - viii. Italy - 3.17%
  - ix. Canada - 2.97%
  - x. Russia - 2.74%
- **A Board of Governors** represents the Bank's government shareholders. They are the ultimate policy makers in the WB.
- **24 Executive directors** deal with the daily functions of the bank including approving loans and guarantees, new policies, the administrative budget, country assistance strategy and borrowing and financial decisions.
  - » 5 Executive directors are from the five largest donors (US, Japan, Germany, UK and France)
  - » Remaining 19 executive directors represent the other member countries.
- **Need of Reforms:**
  - a. **Dominated by a few developed countries:**
  - b. **Doesn't represent the current economic picture of the world.**
  - c. Imposes "**free Market**" economic policy on developing countries as a condition for loans.
  - d. **Need for Capital Increase**
  - e. **Need of transparency** -> to ensure integrity, credibility and impartiality of the organization (e.g. recent data manipulation controversy)
- **Suggestion by G20 expert panel on strengthening Multilateral Development Banks (MDBs)**, such as WB, ADB (Oct 2023)
  - Shift from financing individual projects to prioritizing programs with sectoral focus and long-term transformation plan, as identified by National Government.
    - MDBs should focus on helping national governments create and operationalize their respective country platforms for the highest priority sustainable development goals (SDGs)
  - **MDBs** need to ramp up financing to \$390 billion by 2030 and private sector can play an important role here by reversing the current trend of "disappointingly low" private financial flows to EMDEs.
    - MDBs need to embrace partnership with private sector.
- **World Bank Group and India**
  - India is the largest client of the WBG.
  - India is member of 4/5 organs of WBG.
- **Reports:**
  - Global Economic Prospect



- Logistic Performance Index (last in 2018)
- Ease of Doing Business Index
  - Stopped due to data manipulation controversy.
- Human Capital Index

#### 4) INTERNATIONAL MONETARY FUND (IMF)

- **Introduction**
  - » **Beginning**
    - The IMF also known as the Fund, was conceived at a UN conference in Bretton Woods, New Hampshire, United States, in July 1944. It formally came into existence in 1945, the IMF is governed by and accountable to 189 countries that make up its near-global membership.
      - **Note:** IMF and World Bank are two Bretton woods organizations.
    - **Headquarter:** Washington DC
- The **primary goal** of the IMF was to bring about International Economic Coordination to prevent competing currency devaluation by countries trying to promote their own exports.
  - » Eventually, **IMF evolved to be a lender of last resort** to governments of countries that had to deal with severe currency crisis.
- The **Organization's Objectives stated in the Articles of Agreement** are:
  - To promote international Economic Cooperation, International Trade, Employment and Exchange rate stability, including by making financial resources available to member countries to meet balance of payment needs.
- **How IMF promotes global Economic Stability**
  - » The IMF helps countries to implement sound and appropriate policies through its key functions of surveillance, technical assistance, and lending.
    - » **Surveillance**
      - IMF's mandate is to oversee the international monetary system and monitor the economic and financial policies of its 189 member countries. This surveillance takes place at the global level and in individual countries and regions.
      - **Consulting with member countries**
        - IMF monitors members' economies through regular - usually annual - consultation with each member country.
      - **Closely monitors global and regional trends**
        - Periodic reports : **The World Economic Outlook**, its regional overviews, **the Fiscal Monitor**, and the **Global Financial Stability Report**, analyze global and regional macroeconomic and financial developments.
    - » **Technical Assistance:** IMF provides advice and training on a range of issues within its mandate, including fiscal, monetary and exchange rate policies, regulation and supervision of financial systems; statistics systems; and legal framework.
    - » **Lending**

- Financial assistance to a member country which is experiencing financial difficulty. It can also support crisis prevention.
- A core responsibility of IMF is to provide loans to member countries experiencing actual or potential balance of payments problems.
- **IMF Bailouts**
  - **Why in news?**
    - In March 2023, IMF confirmed \$3 billion bailout plan for Sri Lanka's struggling economy (March 2023)
      - IMF officials are also negotiating with Pakistan for \$1.1 billion bailout plan as the country faces a severe economic crisis.
  - **Why do nations seek IMF bailout?**
    - To deal with major **macro-economic risks**:
      - For e.g. in case of both Sri Lanka and Pakistan, both countries have witnessed domestic price rise rapidly and steep depreciation in their currency.
  - **How does the IMF help countries?**
    - It lends money, often in the form of special drawing rights (SDRs), to troubled economies that seek the lender's assistance.
    - IMF carries out its lending to troubled economies through a number of lending programs such as Extended Credit Facility; the flexible credit facility; the standby agreement etc.
  - **Criticisms of IMF Bailouts**
    - IMF usually imposes conditions on countries before it lends any money to them. For e.g. a country may have to implement certain structural reforms as a condition to receive IMF loans. The IMF's conditional lending has been controversial as many believe that these reforms are too tough on the public. Sometimes IMF is also accused of influencing international politics.
  - **Supporters** argue that without structural reforms bailout will not be successful.
- **Where the IMF Gets its Money**
  - Most resources for IMF loans are provided by member countries, primarily through their payment of quotas.
  - **Borrowings** provides a temporary supplement to quota resources and has played a critical role in enabling the fund to meet member's need for financial support during the global economic crisis.
  - Concessional lending and debt relief for low income countries are financed through separate **contribution based trust funds**.
- **Governance and Organization**
  - The IMF is accountable to the government of its member countries.
    - At the top of its organization structure is the **Board of Governors**, which consists of one governor and one alternate governor from each member country.
      - The Board of governor meets once each year at the IMF-World Bank Annual Meetings. **Twenty-four of the governors** sit on the **International Monetary and Financial Committee (IMFC)** and normally meet twice each year.

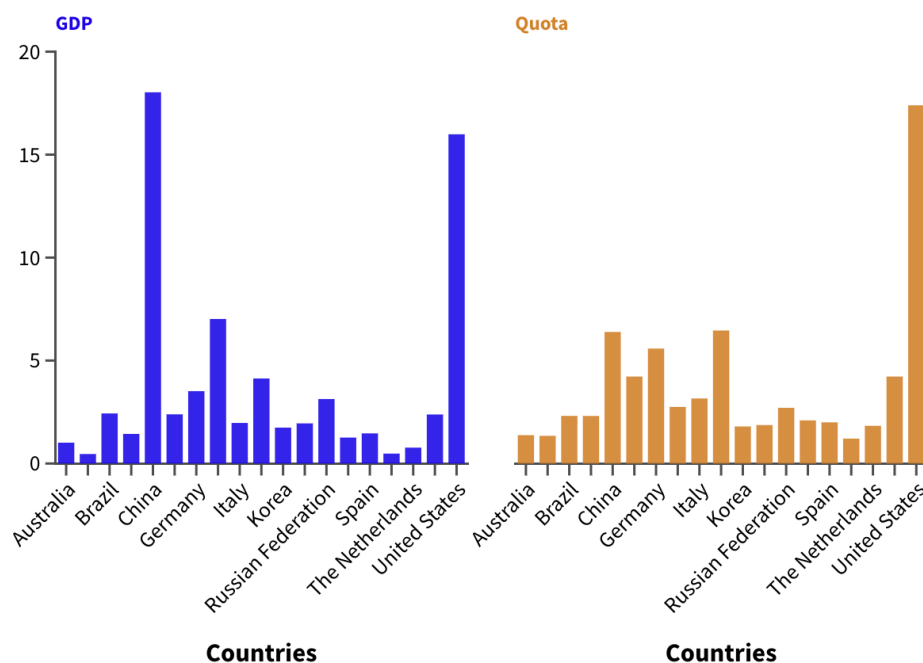
- The day-to-day work of IMF is overseen by its 24-member **Executive Board**, which represents the entire membership; this work is guided by the IMFC and supported by the IMF staff. From 2016, all members of the board are elected.
- **The Managing Director** is the head of the IMF staff and Chairman of the Executive Board and is assisted by four Deputy Managing Directors.

#### - IMF Quotas

- Quota subscriptions are a central component of the IMF's financial resources. Each member country of IMF is assigned a quota, based broadly on its relative position in the world economy.
  - A member country's quota determines its
    - Maximum financial commitment to the IMF
    - its voting power
      - Each IMF member's votes are comprised of basic votes plus one additional vote for each SDR 100,000 of quota.
        - The 2008 reforms fixed the number of **basic votes at 5.502% of total votes**.
    - Access to Finance: The amount of financing a member can obtain from the IMF (its access limit) is based on its quota
- The current Quota formula is a **weighted average of GDP (weight 50%), openness (30 percent), economic variability (15%), and international reserves (5 percent)**.
  - **GDP** is measured as a blend of GDP - based on market exchange rates (weight of 60%) and PPP exchange rates (40 percent).

### Countries with IMF quotas (over 1%)

The 2023 meeting of World Bank & IMF in Morocco were expected to initiate a process whereby IMF quotas, which decide voting heft of countries, would be restructured.



- Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account.

- » India's quota is 2.76% and China's is 6.41%, while the U.S.'s quota is 17.46 % (translates to a vote share of 16.52%) giving it a unique veto power over crucial decisions at the IMF, many of which require a supermajority of 85%.
  - The largest member of IMF is the United States (current Quota, March 2017 : SDR 82.99 billion (US\$113 billion))
  - The smallest member is Tuvalu (Current quota, SDR 2.5 million (about US\$3.4 million)).

#### ▫ **How Quota Review works**

- » The IMF's Board of Governors conducts general quota reviews at regular intervals (usually every five years) Any changes in quotas **must be approved by 85 percent majority** of total voting power, and a member's quota cannot be changed without its consent.
  - There are two main issues addressed in a general quota review:
    1. the size of an overall increase
    2. the distribution of the increase among the members.

#### ▫ **Why periodic reviews are done?**

- » **Maintaining adequacy of resource:**
  - In terms of member's balance of payment financing needs
  - IMF's ability to help meet those needs.
- » **Reflect changes in the global economic status**

- **Ad hoc increases** outside general reviews do not occur often, but the increases in quotas for 54 member countries approved under the 2008 reforms are a recent example.

#### - **The 2010 Review and it's coming into effect in Jan 2016**

- » The **2010 Quota and Governance reform** were approved by the IMF's Board of Governors in Dec 2010 and built on an earlier set of reforms that were approved by the Governors in April 2008.
- » This was the **14th General Review of Quotas**
  - **Reform package came into force in Jan 2016**
- » **Key outcomes of the 2010 reform**
  - **Quota Reforms -> Doubling of Quota to SDR 477 billion; Shifting of quota to under-represented member countries and EMDCs.**
    - This has made China the 3rd largest shareholder in IMF and (India, Brazil and Russia) have also come among the largest shareholders.
  - **Governance Reform**
    - **All elected IMF's Executive Board** (Board Reform Amendment)
- » **Implications**
  - Increase the financial strength of the IMF.
  - Fund will better meet and represent the needs of its members in a rapidly changing global environment.
  - It is a major step towards better reflecting in the institution's governance structure and increasing role of dynamic emerging market and developing countries.
  - This will reinforce the credibility, effectiveness, and legitimacy of the IMF.

#### - **IMF Quota and Governance: Need for reforms**

- **Need for Reform**

- Given the unequal voting power mechanism, IMF doesn't always serve the interests of poor and developing countries, hence require two sets of reforms:

1. **Need for Quota Reforms**

- To give more say to developing nations in the activities of the multi-lateral organizations.
- To reflect the changes in economic realities, especially with regard to increasing prowess of the developing nations.
- To increase the financial capability of IMF.

2. **Need for governance Reform.**

- To make it more representative

- Some IMF members have become frustrated with the pace of governance reform, as the balance of economics and geopolitical power has shifted, becoming more dispersed across the world, particularly with the emergence of China and India.

- **Key changes agreed to in 2019 Agreement.**

- » **The 15th Quota Review** is currently underway.
- » IMF has agreed to maintain its funding at \$1 trillion but has **postponed changes to its voting structure**.
  - This deal is a compromise with the U.S., the fund's largest shareholder, which has resisted changes to the organization's voting structure as well as increase in its permanent resource base.
  - The IMF quotas will now be reviewed before the end of 2023.

## A) SDR (UNDERSTAND FOR PRELIMS)

- The SDR is an international reserve asset, created by IMF in 1969. It operates as a **supplement to the existing money reserves of member countries**.
- **Why was SDR needed?** Under Bretton woods, the international supply of two key reserve assets - gold and US dollar - proved inadequate for supporting the expansion of world trade and financial development that was taking place. Therefore, international community decided to create a new international reserve under the auspices of IMF.
- **The IMF** uses SDRs for internal accounting purposes.
- The **value of SDR** is calculated from a weighted basket of major currencies, including the U.S. dollar, the euro, Japanese Yen, Chinese Yuan and British Pound.
  - The makeup of SDR is re-evaluated five years. The current makeup of the SDR is represented by the following table:

Currency	Weights Determined in the 2015 Review	Fixed Number of Units of Currency for a 5-Year Period Starting Oct. 1, 2016
U.S. Dollar	41.73	0.58252
Euro	30.93	0.38671
Chinese Yuan	10.92	1.0174
Japanese Yen	8.33	11.900
Pound Sterling	8.09	0.085946

- **Which currencies can be included in SDR baskets?**
  - Currencies of "members or monetary unions whose exports had the largest value over a five-year period and have been determined by the IMF to be freely usable."
  - The **SDR interest rate** (SDRi) provides the basis for calculating the interest rate charged to member countries when they borrow from the IMF and paid to members for their remunerated creditors position in the IMF.
  - The IMF member countries are entitled to get a loan from IMF's SDR Account. This loan amount is upto 200% of the member's quota with the IMF. It is also known as **Paper Gold**.
    - In this arrangement IMF doesn't lend directly. It is the member countries, who are in a strong position, lend their SDR holdings to member countries who are in problems for balance of payment.