International Financial Institutions

International Finance is an important part of financial economics. It mainly discusses the issues related with monetary interactions of at least two or more countries. International finance is concerned with subjects such as exchange rates of currencies, monetary systems of the world, foreign direct investment (FDI), and other important issues associated with international financial management.

Like international trade and business, **international finance** exists due to the fact that economic activities of businesses, governments, and organizations get affected by the existence of nations. It is a known fact that countries often borrow and lend from each other. In such trades, many countries use their own currencies. Therefore, we must understand how the currencies compare with each other. Moreover, we should also have a good understanding of how these goods are paid for and what is the determining factor of the prices that the currencies trade at.

At the **Bretton Woods Conference** in 1944 it was decided to establish a new monetary order that would expand international trade, promote international capital flows and contribute to monetary stability. The IMF and the World Bank were borne out of this Conference of the end of World War II. The World Bank was established to help the restoration of economies disrupted by War by facilitating the investment of capital for productive purposes and to promote the long-range balanced growth of international trade. On the other hand, the IMF is primarily a supervisory institution for coordinating the efforts of member countries to achieve greater cooperation in the formulation of economic policies. It helps to promote exchange stability and orderly exchange relations among its member countries.

In many parts of the world, international financial institutions (IFIs) play a major role in the social and economic development programs of nations with developing or transitional economies. This role includes advising on development projects, funding them and assisting in their implementation.

Characterized by AAA-credit ratings and a broad membership of borrowing and donor countries, each of these institutions operates independently. All however, share the following goals and objectives:

- To reduce global poverty and improve people's living conditions and standards;
- To support sustainable economic, social and institutional development; and
- To promote regional cooperation and integration.

IFIs achieve these objectives through loans, credits and grants to national governments. Such funding is usually tied to specific projects that focus on economic and socially sustainable development. IFIs also provide technical and advisory assistance to their borrowers and conduct extensive research on development issues. In addition to these *public procurement* opportunities, in which multilateral financing is delivered to a national government for the implementation of a project or program, IFIs are increasingly lending directly to non-sovereign guaranteed (NSG) actors. These include sub-national government entities, as well as the private sector.

INTERNATIONAL MONETARY FUND (IMF)

The International Monetary Fund, also known as the IMF or simply the 'Fund', was conceived at a United Nations Conference convened in Bretton Woods, New Hampshire, US in July 1944. The 45 governments represented at the conference sought to build a framework for economic cooperation that would avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s.

The IMF offers regular dialogue and policy advice to each of its members. Generally, once a year, the Fund conducts in-depth appraisals of each member country's economic situation. It discusses with the country's authorities the policies that are most conducive to stable exchange rates and a growing and prosperous economy.

In its overview of its members' economic policies, the IMF looks mainly at a country's macro-economic performance. This comprises total spending and its major components such as consumer spending and business investment, output, employment, and inflation, as well as the country's balance of payments.

Responsibilities of the International Monetary Fund:

i. Promoting international monetary cooperation

ii. Facilitating the expansion and balanced growth of international trade

iii. Promoting exchange stability

iv. Assisting in the establishment of a multilateral system of payments.

v. Making its resources available, under adequate safeguards to members experiencing balance of payments difficulties

The Fund seeks to promote economic stability and prevent crises; to help resolve crises when they do occur, and to promote growth and alleviate poverty.

Objectives of IMF

1) International Monetary Co-Operation

The most important objective of the Fund is to establish international monetary co-operation amongst the various member countries through a permanent institution that provides the machinery for consultation and collaborations in various international monetary problems and issues.

2) Ensure Exchange Stability

Another important objective of the Fund is to ensure stability in the foreign exchange rates by maintaining orderly exchange arrangement among members and also to rule out unnecessary competitive exchange depreciations.

3) Balanced Growth of Trade

IMF has also another important objective to promote international trade so as to achieve its required expansion and balanced growth. This would ensure development of production resources and thereby promote and maintain high levels of income and employment among all its member countries.

4) Eliminate Exchange Control

Another important objective of the Fund is to eliminate or relax exchange controls imposed by almost each and every country before Second World War as a device to deliberately fix the exchange rate at a particular level. Such elimination of exchange controls was made so as to give encouragement to the flow of international trade.

5) Multilateral Trade and Payments

To establish a multilateral trade and payment system in respect to current transactions between members in place of the old system of bilateral trade agreements was another important objective of IMF.

6) Balanced Growth

Another objective of IMF is to help the member countries, especially the backward countries, to attain balanced economic growth by exchange the level of employment.

7) Correction of BOP Maladjustments

IMF also helps the member countries in eliminating or reducing the disequilibrium or maladjustments in balance of payments. Accordingly, it gives confidence to members by selling or lending Fund's foreign currency resources to the member nations.

8) Promote Investment of Capital

Finally, the IMF also promotes the flow of capital from richer to poorer or backward countries so as to help the backward countries to develop their own economic resources for attaining higher standard of living for its people, in general.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

The International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank, is an international financial institution whose purposes include assisting the development of its member nation's territories, promoting and supplementing private foreign investment and promoting long-range balance growth in international trade.

The World Bank was established in December 1945 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. It opened for business in June 1946 and helped in the reconstruction of nations devastated by World War II. Since 1960s the World Bank has shifted its focus from the advanced industrialized nations to developing third-world countries.

Since the IMF was designed to provide temporary assistance in correcting the balance of payments difficulties, an institution was also needed to assist long-term investment purposes. Thus, IBRD was established for promoting long-term investment loans on reasonable terms.

The World Bank (IBRD) is an inter-governmental institution, corporate in form, whose capital stock is entirely owned by its member-governments. Initially, only nations that were members of the IMF could be members of the World Bank; this restriction on membership was subsequently relaxed.

Objectives of IBRD

1. To provide long-run capital to member countries for economic reconstruction and development.

2. To induce long-run capital investment for assuring Balance of Payments (BoP) equilibrium and balanced development of international trade.

3. To provide guarantee for loans granted to small and large units and other projects of member countries.

4. To ensure the implementation of development projects so as to bring about a smooth transference from a war-time to peace economy.

5. To promote capital investment in member countries by the following ways;

   a) To provide guarantee on private loans or capital investment.

   b) If private capital is not available even after providing guarantee, then IBRD provides loans for productive activities on considerate conditions.

Functions of IBRD

World Bank is playing main role of providing loans for development works to member countries, especially to underdeveloped countries. The World Bank provides long-term loans for various development projects of 5 to 20 years duration. The main functions can be explained with the help of the following points:

1. World Bank provides various technical services to the member countries. For this purpose, the Bank has established "The Economic Development Institute" and a Staff College in Washington.

2. Bank can grant loans to a member country up to 20% of its share in the paid-up capital.

3. The quantities of loans, interest rate and terms and conditions are determined by the Bank itself.

4. Generally, Bank grants loans for a particular project duly submitted to the Bank by the member country.

5. The debtor nation has to repay either in reserve currencies or in the currency in which the loan was sanctioned.

6. Bank also provides loan to private investors belonging to member countries on its own guarantee, but for this loan private investors have to seek prior permission from those counties where this amount will be collected.

INTERNATIONAL FINANCE CORPORATION (IFC)

International Finance Corporation (IFC) was setup in 1956 with a view to provide long-term loans and risk or equity capital to private sector enterprises, and to encourage the flow of foreign private capital to developing countries through the establishment and expansion of capital markets and financial institutions in those countries. The unique feature of the IFC is that it gives assistance for promoting the development of financial markets or the market-oriented financial sectors. It advises governments on the legal, fiscal and regulatory frameworks needed for this purpose. It attracts international investors to the securities markets in host countries by sponsoring, underwriting and distributing the shares of both individual companies and funds that invest in those securities. It does not supply funds to the governments and it does not require government guarantees. Its capital is provided by its 135 member countries.

Objectives of IFC

IFC's objective is to assist economic development by encouraging the growth of productive private enterprise in its member nations, particularly in the underdeveloped areas. Thus, it laid down the following objectives:

1. To invest in productive private enterprises, in association with private investors, and without government guarantee of repayment, in cases where sufficient private capital is not available on reasonable terms.

2. To serve as a clearing house to bring together investment opportunities, private capital (both foreign and domestic) and experienced management.

3. To help in stimulating the productive investment of private capital, both domestic and foreign.

IFC's Vision, Values, & Purpose

IFC's vision is that people should have the opportunity to escape poverty and improve their lives.

IFC's values are excellence, commitment, integrity and teamwork.

IFC's Purpose is to create opportunity for people to escape poverty and improve their lives by;

i. Promoting open and competitive markets in developing countries.

ii. Supporting companies and other private sector partners where there is a gap.

iii. Helping to generate productive jobs and deliver essential services to the underserved.

In order to achieve its Purpose, IFC offers development impact solutions through: firm-level interventions (direct investments and advisory services); standard-setting; and business enabling environment work.

IFC’s Shared Mission

IFC, as the private sector arm of the World Bank Group, shares its mission:

- To fight poverty with passion and professionalism for lasting results.
- To help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors.

Products & Services

IFC is a dynamic organization, constantly adjusting to the evolving needs of clients in emerging markets. It is no longer defined predominantly by the role in providing project finance to companies in developing countries. It also has:

i. Developed innovative financial products

ii. Broadened capacity to provide advisory services

iii. Deepened corporate governance, environmental and social expertise

Member Countries

IFC has 181 member countries. To join IFC, a country must:

i. Be a member of the World Bank (IBRD);

ii. Have signed IFC’s Articles of Agreement; and

iii. Have deposited with the World Bank Group’s Corporate Secretariat an Instrument of Acceptance of IFC’s Articles of Agreement.