UNIT – V

International Financial Institution: Working of IMF, IBRD, IDA–International Liquidity –SDR–WTO–Regional Economic Co-operation- EEC- NAFTA-LAFTA-SAARC-BRICS-Recent Import and Export Policy.

INTERNATIONAL FINANCIAL INSTITUTIONS

IFC International Finance Corporation World Bank Group

Reducing Poverty, Improving Lives

MIGA World Bank Group Multilateral Investment Guarantee Agency

ADB

DEFINITION

- IFI refers to financial institutions that have been established by more than one country.

- The most prominent IFIs are creations of multiple nations, although some bilateral financial institutions.

World Bank

- Established July 1, 1944
- WB Group consist of
  - International Bank of Reconstruction & Development
  - International Development Agency
  - International Financial Corporation
  - Multilateral Investment Guarantee Agency
  - International Center for Settlement of International Dispute
  -

Norwegian Delegation, Bretton Woods, July 1944

WORLD BANK

- 185 COUNTRY
- The five largest shareholders France, Germany, Japan, UK and US .
- Low-interest loans
- Interest - free credits .
- Grants to developing countries
- Financial & Technical Assistance.

World Bank (IBRD)

- IBRD or International Bank for Reconstruction & Development or World Bank was established in 1947.

::: Objectives Of IBRD:::

3) The original objective was to make loans to develop the war shattered economies of Europe in the Second World War.
4) To promote investment by means of guarantee and participation in loans and other investments made by private investors.
5) To provide loans to big projects
6) To help the poor countries by providing them loans and information assistance.

World Bank (IBRD)

- ::Sources of IBRD::

2) Quotas: The membership of the world is the same as that of IMF. Members make contribution in relation to their IMF Quota.
3) Bonds: The World Bank also sells Bonds in the capital markets to raise funds.
4) Income: A very small proportion of the IBRD funds come from the interest on loans advanced by it.

IMF…International Monetary Fund

- Establishment: it was the outcome of Wood Agreement signed by 44 major countries of the world in July 1944 in USA.
- Organization: It is an autonomous body and is affiliated to UNO. The management of Fund is under control of two bodies:

a) Board of governor, b) Board of Executive directors

IMF…International Monetary Fund

- a) Board of governor: it formulates the general policies of the Fund
- b) Board of Executive directors: it is responsible for the day to day activities of the Fund.
- Membership: All those counties which agree to subscribe to Funds Article of Agreement are eligible to Funds Membership. The membership of Fund has risen from 44 nations to 183 now.

IMF…International Monetary Fund

- Quotas: Each member has to contribute a quota to fund. The size of the quota depends upon the national income and share in international trade of that country. The quota is made up of 75 % in the country's currency and 25 % in gold.

IMF…International Monetary Fund

- ::Functions of IMF::
- Maintaining exchange stability among the members countries
- Borrowing: The credit facility has been raised up to 45 % of one's quota over a three years period.
- Correcting Balance of Payment (A **balance of payments (BOP)** sheet is an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services)
- Interest charges: It charges interest on the credit provided to member countries.

5) Technical Assistance: it helps the members by providing the services of specialist and experts in concerned fields.

6)Compensatory Finance Scheme: if a member is facing difficulty in receipt of export credit, the IMF can give loan to member with few conditions.

7) The extended Fund Facility: For the assistance of correcting the balance of payments of the member countries, introduced in 1974 by IMF

8) The Supplementary Financing Facility: This scheme was introduced in 1979 in order to give long term loans to less developed counties

9. Increasing international monetary co-operation.

10. Promoting the growth of trade.

11. Promoting exchange rate stability.

12. Establishing a system of multilateral payments member countries.

13. Building reserve base.

14. Funding facilities.

ig. 4.1 The World Bank Group

International Development Association

It offers concessional loans and grants to the world's **poorest developing countries**

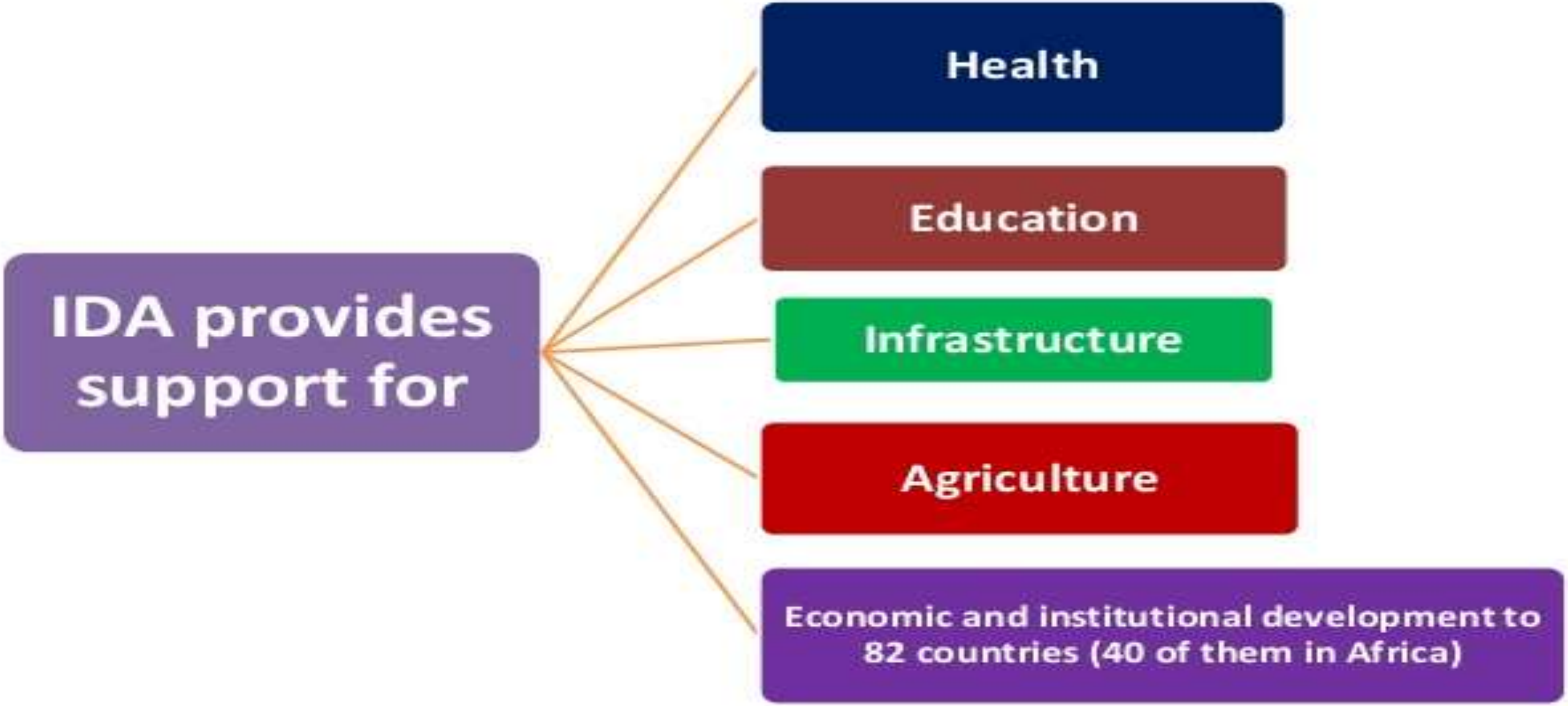
Established in the year 1960

Headquarters at Washington D.C.

Membership of 173 countries

President is Jim Yong Kim

It is the world banks fund for the poorest countries


IDA provides support for
Health
Education
Infrastructure
Agriculture
Economic and institutional development to 82 countries (40 of them in Africa)

Objectives of IDA

- To provide development finance on easy terms to the less developed member countries
- To provide assistance for poverty alleviation in the poorest countries
- To provide finance at a concessional interest rates in order to promote economic development, raise productivity and living standards in less developed nations
- Provides long term loans at zero interest to the poorest of the developing countries
- Supports efficient and effective programs to reduce poverty and improve the quality of life in its poorest member countries
- Helps build the human capital, policies, institutions, and physical infrastructure needed to bring about equitable and sustainable growth
- IDA's goal is to reduce the disparities across and within countries, to bring more people into the mainstream.

Special Drawing Rights

- SDR's are the monetary unit of the reserve assets of IMF.
- Created in 1969.
- SDR unit is defined as a weighted average sum of contributions of 4 major currencies, revaluated and adjusted every 5yrs and computed daily in terms of USD.
- Major currencies are US dollars(₴), Euro(€), Pounds sterling (£) and Japanese Yen(¥).

Purpose of SDR’s

- Used as a unit of account by IMF and several other international organizations.
- They are originally created to replace gold and silver in large international transactions and provide cost free alternative to member states for building reserves.

REGIONAL ECONOMIC INTEGRATION

1. Regional Economic Integration (REI) refers to the commercial policy of discriminatively reducing or eliminating trade barriers only between the states joining together.

2. Regional economic groups eliminate or reduce trade tariffs (and other trade barriers) among the Partner States while maintaining tariffs or barriers for the rest of the world (non-member countries).

3. Geographical proximity, cultural, historical, and ideological similarities, competitive or complementary economic linkages, and a common language among the Partner States are importantly required for effective economic integration.

REGIONAL ECONOMIC INTEGRATION: OBJECTIVES

1. Increase of Trade.
2. Allowing Consumers to Spend More.
3. Movement of Capital.
4. Economic Cooperation

World Trade Organization

Intergovernmental organisation which regulates the international trade

- Officially commenced on 1st Jan 1995 under the Marrakesh Agreement
- Signed by 123 nations in 1994
- WTO had replaced GATT (General agreement on tariffs and trade)
- They deal with: agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property and much more.

WTO: The Beginnings

- The World Trade Organization (WTO) came into being on January 1st 1995.
- It extended GATT in two major ways. First GATT became only one of the three major trade agreements that went into the WTO
- Second the WTO was put on a much sounder institutional footing than GATT

WHY WTO?

- To arrange the implementation, **administration and operations of trade agreements**

- Settlement of **disputes**

- Trade relations in **issues deal with under the agreements.**
- To provide a **framework for implementing** of the results arising out of the deliberations which taken place at ministerial conference level.

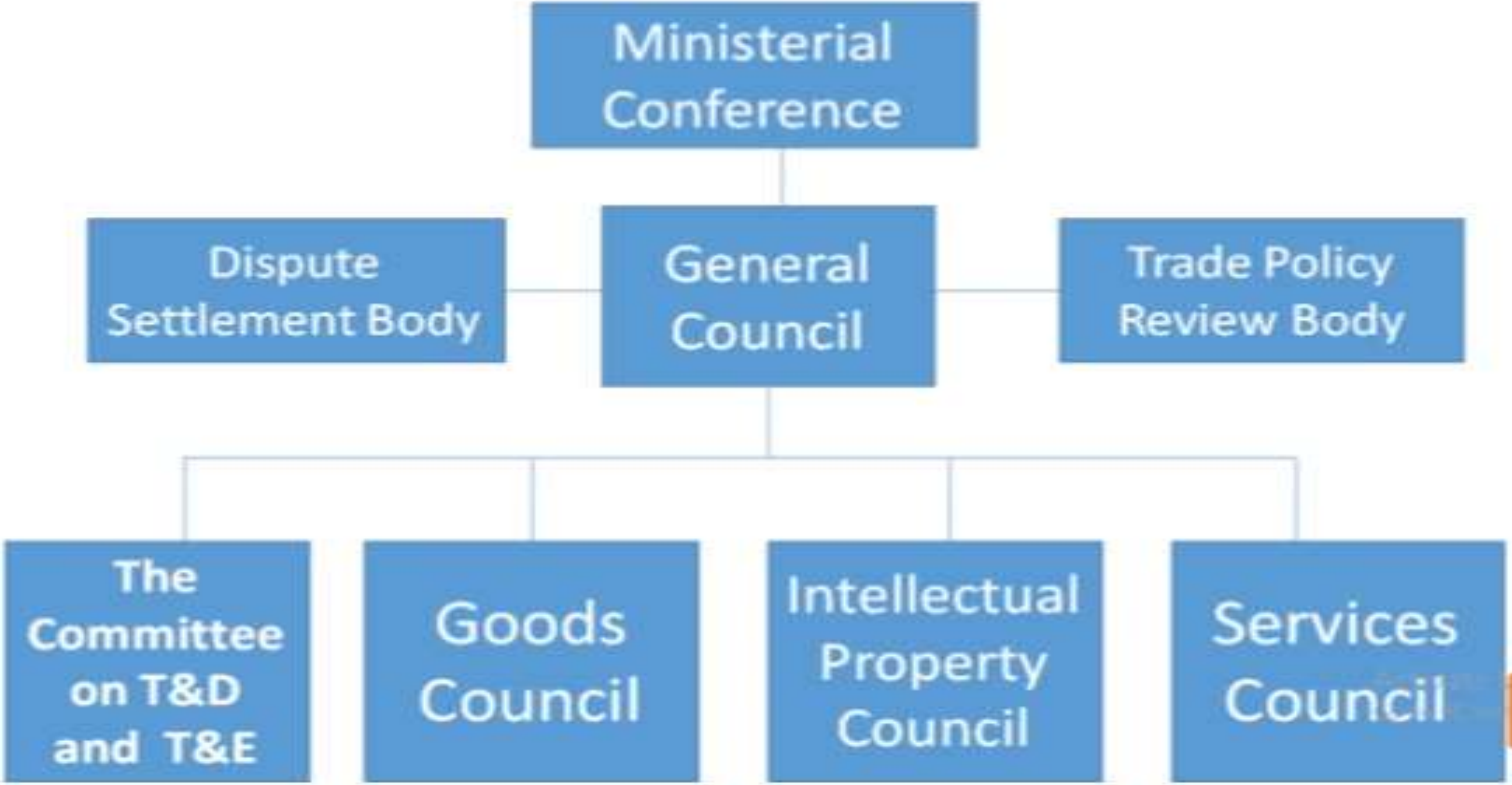
- To manage **effectively and efficiency the trade policy** review mechanism (TRIM).

- To create more **together relationship** with all nations in respect of global economic

FUNCTIONS OF WTO

- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organizations

STRUCTURE OF WTO



North
American
Free
Trade
Agreement

The North American Free Trade Agreement – NAFTA

- **NAFTA in Brief**
  - NAFTA stands for North America Free Trade Agreement
  - Year of Formation: 1994
  - Head Quarters: Mexico City (Mexico), Ottawa (Canada) and Washington D.C. (USA)
  - Description: The North American Free Trade Agreement (NAFTA) is an agreement signed by Canada, Mexico, and the United States and entered into force on 1 January 1994 in order to establish a trilateral trade bloc in North America.

Member States inside NAFTA

* **Membership**
  * NAFTA has three member States, namely Canada, Mexico and United States.

Benefits of NAFTA

* NAFTA created the world's largest free trade area. It allows the 450 million people in the U.S., Canada and Mexico to export to each other at a lower cost.
* As a result, it is responsible for $1.2 trillion in goods and services annually. Estimates are that NAFTA increases the U.S. economy, as measured by GDP, by as much as 0.5% a year. (Source: USTR, Quantification of NAFTA Benefits)

The **Latin American Free Trade Association** (LAFTA) was created in the 1960 Treaty of Montevideo by Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay.

The signatories hoped to create a common market in Latin America and offered tariff rebates among member nations. LAFTA came into effect on January 2; 1962.

The goal of the LAFTA is the creation of a free trade zone in Latin America. It should foster mutual regional trade among the member states, as well as with the U.S. and the European Union.

SAARC

South Asian Association for Regional Cooperation

INTRODUCTION

- SAARC is the eco-political organisation of 8 South Asian Nations,which was established on 8th December, 1985 for friendship and cooperation among themselves and with the other developing countries.

- Covering a population of more than 2 billion, SAARC is the largest regional organisation in the world.

OBJECTIVES

PRIMARY OBJECTIVES

- Improve quality of life and welfare of people.
- Economic, Social, and Cultural development.
- Contribute mutual trust and understanding.
- Strengthen cooperation among themselves and other developing countries.
- Cooperation on issues like water resources.

SECONDARY OBJECTIVES

- SAARC also looks in critical areas like poverty, education, and culture.
- Sports and Arts.

CURRENT MEMBERS

1. Afghanistan (joined the organization in 2007)
2. Bangladesh
3. Bhutan
4. India
5. Maldives
6. Nepal
7. Pakistan
8. Sri Lanka

BRIC

- BRICS stands for Brazil, Russia, India, China

- Goldman Sachs predicted in 2001 that some leading economy of the world will emerge to give competition to western world..

- BRIC is an international political organization of leading emerging economies, its Five members are all developing industrialized countries.

- Biggest and fastest growing emerging economies.

- South Africa has been asked to join the BRIC group of major emerging markets.
- Officially admitted as a BRIC nation on December 24, 2010
- South Africa stands at a unique position to influence African economic growth and investment

Objectives of BRICS

1-To achieve regional development
2-To remove trade barriers.
3-Economic development.
4-Optimum use of resources.
5-Builiding relationship.

Objectives of India's Foreign Trade Policy 2015-20

- FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the 'Make in India' programme.
- The Policy aims to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country's economic growth and development.
- To arrest and reverse declining trend of exports is the main aim of the policy. This aim will be reviewed after two and half years.
- Simplification of the application procedure for availing various benefits.

- To set in motion the strategies and policy measures which catalyze the growth of exports.
- To encourage exports through a mix of measures including fiscal incentives, institutional changes, procedural rationalization and efforts for enhance market access across the world and diversification of export markets.

Highlights of Foreign Trade policy 2015 - 2020

- Increase exports to $900 billion by 2019-20, from $466 billion in 2013-14.
- Raise India's share in world exports from 2% to 3.5%.
- Merchandise Export from India Scheme (MEIS) and Service Exports from India Scheme (SEIS) launched.
- Served From India Scheme (SFIS) will be replaced with Service Export from India Scheme (SEIS).
- For grant of rewards under MEIS, the countries have been categorized into 3 Groups, whereas the rates of rewards under MEIS range from 2 per cent to 5 per cent. Under SEIS the selected Services would be rewarded at the rates of 3 per cent and 5 per cent.

- FTP to be aligned to Make in India, Digital India and Skills India initiatives.
- Duty credit scrips made freely transferable and usable For payment of custom duty, excise duty and service tax.
- Export promotion mission to take on board state Governments
- Unlike annual reviews, FTP will be reviewed after two-and-Half years.
- Higher level of support for export of defence, farm Produce and eco-friendly products.
- Nomenclature of Export House, Star Export House, Trading House, Premier Trading House certificate changed to 1,2,3,4,5 Star Export House. The criteria for export performance for recognition of status holder have been changed from Rupees to US dollar earnings.

- Online procedure to upload digitally signed document by Chartered Accountant/Company Secretary/Cost Accountant to be developed.
- Validity period of SCOMET export authorisation extended from present 12 months to 24 months.
- Chapter-3 incentives extended to units located in SEZs.
- Export obligation under EPCG scheme reduced to 75% to Promote domestic capital goods manufacturing.
- E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values up to INR 25,000).
- Inter-ministerial consultations to be held online for issue of various licences.

- No need to repeatedly submit physical copies of documents available on Exporter Importer Profile.
- 108 MSME clusters have been identified for focused interventions to boost exports. Accordingly, 'Niryat Bandhu Scheme' has been galvanised and repositioned to achieve the objectives of 'Skill India'.
- Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP. One of the major objective of new FTP is to move towards paperless working in 24x7 environment.
- Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various forms of bilateral and regional trade agreements. This 'Approved Exporter System' will help manufacturer exporters considerably in getting fast access to international markets.

GOOD LUCK IN YOUR EXAMS

knock 'em out with your GENIUS!