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CLASS : TY BBA (SEM:VI) **SUB : GLOBAL BUSINESS ENVIRONMENT**

UNIT : 4 **FACULTY : SMRUTI JANI**

(World Bank, IMF, SAARC, EU)

1. WORLD BANK:

History:

World Bank, in full World Bank Group, international organization affiliated with the United Nations (UN) and designed to finance projects that enhance the economic development of member states. Headquartered in Washington, D.C., the bank is the largest source of financial assistance to developing countries. It also provides technical assistance and policy advice and supervises—on behalf of international creditors—the implementation of free-market reforms. Together with the International Monetary Fund (IMF) and the World Trade Organization, it plays a central role in overseeing economic policy and reforming public institutions in developing countries and defining the global macroeconomic agenda.

Origins:

Founded in 1944 at the UN Monetary and Financial Conference (commonly known as the Bretton Woods Conference), which was convened to establish a new, post-World War II international economic system, the World Bank officially began operations in June 1946. Its first loans were geared toward the postwar reconstruction of western Europe. Beginning in the mid-1950s, it played a major role in financing investments in infrastructural projects in developing countries, including roads, hydroelectric dams, water and sewage facilities, maritime ports, and airports.

The World Bank Group comprises five constituent institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). The IBRD provides loans at market rates of interest to middle-income developing countries and creditworthy lower-income countries. The IDA, founded in 1960, provides interest-free long-term loans, technical assistance, and policy advice to low-income developing countries in areas such as health, education, and rural development. Whereas the IBRD raises most of its funds on the world's capital markets, the IDA's lending operations are financed through contributions from developed countries. The IFC, operating in partnership with private investors, provides loans and loan guarantees and equity financing to business undertakings in developing countries. Loan guarantees and insurance to foreign investors against loss caused by noncommercial risks in developing countries are provided by the MIGA. Finally, the ICSID, which operates independently of the IBRD, is responsible for the settlement by conciliation or arbitration of investment disputes between foreign investors and their host developing countries.

From 1968 to 1981 the president of the World Bank was former U.S. secretary of defense Robert S. McNamara. Under his leadership the bank formulated the concept of "sustainable development," which attempted to reconcile economic growth and environmental protection in developing countries. Another feature of the concept was its use of capital flows (in the form of development assistance and foreign investment) to developing countries as a means of narrowing the income gap between rich and poor countries. The bank has expanded its lending activities and, with its numerous research and policy divisions, has developed into a powerful and authoritative intergovernmental body.

Organization and Structure:

The World Bank is related to the UN, though it is not accountable either to the General Assembly or to the Security Council. Each of the bank's more than 180 member states are represented on the board of governors, which meets once a year. The governors are usually their countries' finance ministers or central bank governors. Although the board of governors has some influence on IBRD policies, actual decision-making power is wielded largely by the bank's 25 executive directors. Five major countries—the United States, Japan, Germany, the United Kingdom, and France—appoint their own executive directors. The other countries are grouped into regions, each of which elects one executive director. Throughout the World Bank's history, the bank president, who serves as chairman of the Executive Board, has been an American citizen.

Voting power is based on a country's capital subscription, which is based in turn on its economic resources. The wealthier and more developed countries constitute the bank's major shareholders and thus exercise greater power and influence. For example, in the early 21st century the United States exercised nearly one-sixth of the votes in the IBRD, more than double that of Japan, the second largest contributor. Because developing countries hold only a small number of votes, the system does not provide a significant voice for these countries, which are the primary recipients of World Bank loans and policy advice.

The bank obtains its funds from the capital subscriptions of member countries, bond flotations on the world's capital markets, and net earnings accrued from interest payments on IBRD and IFC loans. Approximately one-tenth of the subscribed capital is paid directly to the bank, with the remainder subject to call if required to meet obligations.

The World Bank is staffed by more than 10,000 people, roughly one-fourth of whom are posted in developing countries. The bank has more than 100 offices in member countries, and in many countries staff members serve directly as policy advisers to the ministry of finance and other ministries. The bank has consultative as well as informal ties with the world's financial markets and institutions and maintains links with nongovernmental organizations in both developed and developing countries.

2. INTERNATIONAL MONETORY FUND (IMF)

History:

The IMF was established in 1944 in the aftermath of the Great Depression of the 1930s. 44 founding member countries sought to build a framework for international economic cooperation. Today, its membership embraces 190 countries, with staff drawn from 150 nations.

The IMF is governed by and accountable to those 190 countries that make up its near-global membership.

Formation of IMF

The breakdown of international monetary cooperation during the Great Depression led to the development of the IMF, which aimed at improving economic growth and reducing poverty around the world. The International Monetary Fund (IMF) was initially formed at the Bretton Woods Conference in 1944. 45 government representatives were present at the Conference to discuss a framework for postwar international economic cooperation.

The IMF became operational on 27th December 1945 with 29 member countries that agreed to bound to this treaty. It began its financial operations on 1st March 1947. Currently, the IMF consists of 189 member countries.

The IMF is regarded as a key organisation in the international economic system which focuses on rebuilding the international capital along with maximizing the national economic sovereignty and human welfare.

Organization and Structure:

At the top of its organizational structure is the Board of Governors. The day-to-day work of the IMF is overseen by its 24-member Executive Board, which represents the entire membership and supported by IMF staff. The Managing Director is the head of the IMF staff and Chair of the Executive Board. S/he is assisted by four Deputy Managing Directors.

Managing Director Kristalina Georgieva

Structure of the International Monetary Fund (IMF)

Board of Governors:

- Each governor of the Board of Governors is appointed by his/her respective member country.
- Elects or appoints executive directors to the Executive Board.
- Board of Governors is advised by the International Monetary and Financial Committee (IMFC) and the Development Committee.
- An annual meet up between the Board of Governors and the World Bank Group is conducted during the IMF–World Bank Annual Meetings to discuss the work of their respective institutions.

Ministerial Committees
{International Monetary and Financial Committee (IMFC) and Development Committee}

- It manages the international monetary and financial system.
- .Amendment of the Articles of Agreement.
- To solve the issues in the developing countries that are related to economic development.

Executive Board

- It is a 24-member board that discusses all the aspects of the Funds.
- The Board normally makes decisions based on consensus, but sometimes formal votes are taken.

Objectives of the IMF:

IMF was developed as an initiative to promote international monetary cooperation, enable international trade, achieve financial stability, stimulate high employment, diminish poverty in the world, and sustain economic growth. Initially, there were 29 countries with a goal of redoing the global payment system. Today, the organization has 189 members. The main objectives of the International Monetary Fund (IMF) are mentioned below:

1. To improve and promote global monetary cooperation of the world.
2. To secure financial stability by eliminating or minimizing the exchange rate stability.
3. To facilitate a balanced international trade.
4. To promote high employment through economic assistance and sustainable economic growth.
5. To reduce poverty around the world.

Functions of the IMF:

IMF mainly focuses on supervising the international monetary system along with providing credits to the member countries. The functions of the International Monetary Fund can be categorized into three types:

1. Regulatory functions: IMF functions as a regulatory body and as per the rules of the Articles of Agreement, it also focuses on administering a code of conduct for exchange rate policies and restrictions on payments for current account transactions.
2. Financial functions: IMF provides financial support and resources to the member countries to meet short term and medium term Balance of Payments (BOP) disequilibrium.
3. Consultative functions: IMF is a centre for international cooperation for the member countries. It also acts as a source of counsel and technical assistance.

India & IMF:

India is a founder member of the IMF. India's Union Finance Minister is the Ex Officio Governor on the IMF's Board of Governors. Each member country also has an alternate governor. The alternate governor for India is the Governor of the RBI. There is also an Executive Director for India who represents the country at the IMF.

- India's quota in the IMF is SDR 13,114.4 million that gives India a shareholding of 2.76%. Read about the Special Drawing Rights – Created in 1969 by International Monetary Fund (IMF) at the linked article.
- This makes India the eight largest quota holding country at the organization.
- In 2000, India completed the repayment of all the loans it had taken from the IMF.
- Now, India is a contributor to the IMF.

The emerging economies have gained more influence in the governance architecture of the International Monetary Fund (IMF).

- The reforms were agreed upon by the then 188 members of the IMF in 2010, in the aftermath of the global financial meltdown.
- More than six percent of the quota shares will shift to emerging and developing countries from the U.S. and European countries.

Which countries gained?

- India's voting rights increased to 2.63 percent from the current 2.3 percent, and China's to 6.08 percent from 3.8. Russia and Brazil are the other two countries that gain from the reforms.

Why delay the reforms?

- Among the reasons for the delay has been the time it took the U.S Congress to approve the changes.
- Though the country holds veto power, Republicans have been agitated over “declining U.S power.”

Advantages:

- For the first time, the Executive Board will consist entirely of elected executive directors, ending the category of appointed executive directors. Currently, the members with the five largest quotas appoint an executive director, a position that will cease to exist.
- The significant resource enhancement will fortify the IMF’s ability to respond to crises more effectively.
- These reforms will reinforce the credibility, effectiveness, and legitimacy of the IMF.

3. SAARC:

History:

The South Asian Association for Regional Cooperation (SAARC) was established on 8 December 1985. The Secretariat of the Association was set up in Kathmandu, Nepal, on 17 January 1987. SAARC has eight member countries (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri-Lanka).

The objectives of the Association are: to promote the welfare of the peoples of South Asia and to improve their quality of life; to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potentials. SAARC also aims to strengthen cooperation with other developing countries and to cooperate with international and regional organizations with similar aims and purposes.

SAARC Heads of State are scheduled to meet at annual Summits. The last one was organized in Kathmandu in 2014. Since then, Nepal has been organizing informal meetings of SAARC Foreign Ministers every year. The last one was hosted virtually by Kathmandu in September 2020 in the margins of the UNGA.SAARC designed and implemented a regional SAARC Covid-19 emergency fund, amounting to around 22 M USD, to foster the cooperation among its member states.

SAARC Member States	SAARC Observer States
1. Afghanistan 2. Bangladesh 3. Bhutan 4. India 5. Maldives 6. Nepal 7. Pakistan 8. Sri Lanka	1. Australia 2. China 3. European union 4. Iran 5. Japan 6. Mauritius 7. United States 8. Myanmar 9. Republic of Korea

SAARC – Historical background

1. The idea of regional cooperation in South Asia was first initiated in May 1980. The Foreign Secretaries of the then seven countries met for the first time in Colombo in April 1981. Five key areas for regional cooperation were identified and with time other important areas were added later.
2. The South Asian Association for Regional Cooperation was set up when its Charter was formally adopted on 8 December 1985 by the Heads of State or Government of India, Bangladesh, Maldives, Bhutan, Nepal, Sri Lanka, and Pakistan.

Areas of Cooperation Among SAARC Nations

- Agriculture and Rural Development
- Human Resource Development and Tourism
- Economic, Trade and Finance
- Social Affairs
- Environment, Natural Disasters and Biotechnology
- Education, Security and Culture and Others
- Information and Poverty Alleviation
- Energy, Transport, Science and Technology

SAARC – Objectives

The main motto of the organization is to work towards a common goal of achieving social, cultural, economic growth for all the people within the South Asia region.

The objectives of SAARC, as defined in its charter, are as follows:

- Promote the welfare of the peoples of South Asia and improve their quality of life
- Accelerate economic growth, social progress, and cultural development in the region by providing all individuals the opportunity to live in dignity and realize their full potential
- Promote and strengthen collective self-reliance among the countries of South Asia
- Contribute to mutual trust, understanding and appreciation of one another's problems
- Promote active collaboration and mutual assistance in the economic, social, cultural, technical, and scientific fields
- Strengthen co-operation with other developing countries
- Strengthen co-operation among themselves in international forums on matters of common interest; and
- Cooperate with international and regional organizations with similar aims and purposes.

SAARC Principles

Cooperation within the framework of the SAARC shall be based on:

- Respect for the principles of sovereign equality, territorial integrity, political independence, non-interference in the internal affairs of other States and mutual benefit.
- Such cooperation shall not be a substitute for bilateral and multilateral cooperation but shall complement them.
- Such cooperation shall not be inconsistent with bilateral and multilateral obligations.

SAARC – Structure

SAARC has the following structure:

1. Council – It is the apex policy-making body. The council is represented by government heads of the respective member countries.
2. Council of Ministers – The Council of Ministers comprises the foreign ministers and they meet generally two times annually.

Achievements of SAARC

1. A Free Trade Area is established by the member countries to increase their internal trade and lessen the trade gap of some states considerably. SAARC is comparatively a new organization in the global arena.
2. SAARC Free Trade Agreement – SAFTA was signed to reduce customs duties of all traded goods to zero by the year 2016. The agreement was confined to goods, but excluding all services like information technology.
3. South Asia Preferential Trading Agreement – SAPTA for promoting trade amongst the member countries came into effect in 1995.

4. SAARC Agreement on Trade in Services – SATIS is following the GATS-plus ‘positive list’ approach for trade in services liberalization.
5. SAARC University – Establish a SAARC university in India, a food bank, and also an energy reserve in Pakistan.

Challenges with SAARC

1. Relation between India and Pakistan escalated tensions and conflicts severely hampers the prospects of SAARC.
2. The frequency of SAARC meetings is low. More engagements between member nations are required instead of biennial meetings SAARC nations should meet annually.
3. The energy and resources are diverted due to the Broad area of cooperation.
4. The implementation of the SAARC Free Trade Agreement has not been satisfactory.

4. European Union

History:

European Union (EU), international organization comprising 27 European countries and governing common economic, social, and security policies. Originally confined to western Europe, the EU undertook a robust expansion into central and eastern Europe in the early 21st century. The EU’s members are Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Li thuania, Luxembourg, Malta, the
Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden. The United Kingdom, which had been a founding member of the EU, left the organization in 2020.

Origins:

The EU represents one in a series of efforts to integrate Europe since World War II. At the end of the war, several western European countries sought closer economic, social, and political ties to achieve economic growth and military security and to promote a lasting reconciliation between France and Germany. To this end, in 1951 the leaders of six countries—Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany—signed the Treaty of Paris, thereby, when it took effect in 1952, founding the European Coal and Steel Community (ECSC). (The United Kingdom had been invited to join the ECSC and in 1955 sent a representative to observe discussions about its ongoing development, but the Labour government of Clement Attlee declined membership, owing perhaps to a variety of factors, including the illness of key ministers, a desire to maintain economic independence, and a failure to grasp the community’s impending significance.) The ECSC created a free-trade area for several key economic and military resources: coal, coke, steel, scrap, and iron ore. To manage the ECSC, the treaty established several supranational institutions: a High Authority to administrate, a Council of Ministers to legislate, a Common Assembly to formulate policy, and a Court of Justice to interpret the treaty and to resolve related disputes. A series of further international treaties and treaty revisions based largely on this model led eventually to the creation of the EU.

Objectives:

The European Union's main objective is to promote peace, follow the EU's values and improve the wellbeing of nations. The European Parliament and other institutions see to it that these objectives are achieved.
The main objectives are:

- A common European area without borders:

The objective is to create a free and safe Europe with no internal borders. The citizens living in the area enjoy the rights granted by the European Union.

- Internal market:

The objective is to ensure smooth and efficient trade within Europe. Competition between companies is free and fair.

- Stable and sustainable development:

The objective is to ensure Europe's sustainable and steady development. It means balanced economic growth and stable prices. The European Union seeks to create a competitive market economy which takes into account people's wellbeing and social needs. An important issue is environmental protection. Scientific and technological development

The European Union supports the advancement of science and technology and invests in education. Another objective is to achieve a skilled workforce and a high standard of technological production.

- Prevention of social exclusion:

The European Union works hard to prevent social exclusion. It seeks to prevent people from drifting outside the labour market and society. Efforts are made to eliminate poverty. The Union works for equality. Minority rights are protected. Social security is improved. Men and women must be treated equally. Children's rights must be protected and children given a happy childhood. Old people must be looked after and respected.

- Solidarity:

Solidarity between countries and people is promoted in the field of the economy, social equality and regions. The member states must be loyal to one another. It means that states must take responsibility for and be understanding of one another.

- Respect for languages and cultures:

The European Union respects the languages and cultures of the individual countries. National cultures and the common European culture are cherished and developed.

Principles:

The European Union's mission is to ensure the free mobility of people, goods, services and capital within the Union (the 'four freedoms'). At the same time, all discrimination is strictly forbidden.

The Union respects the national identity, political system and constitution of the member states. They work together in good faith.

Policies:

- Trade policy:

There are no customs duties between EU member states. Also, imports from developing countries are duty-free or the duties are lowered. This is one way in which the EU tries to eliminate poverty. The European Union holds an important position in the World Trade Organisation (WTO). Trade relations are maintained, in particular, with the Mediterranean countries, Russia, the United States and China. The European Union seeks to promote the trade relations and interests of its member states every way it can. Member states may also sign bilateral trade agreements with other countries as long as they are not in conflict with the EU laws and agreements.

- Economic policy:

The objective of the European Union's economic policy is to create a stable and prosperous euro zone. A common currency improves companies' competitiveness and increases economic stability. The European Central Bank regulates the interest rates and is able to control inflation and exchange rates. The European Union pays members states various subsidies, for example for development projects. The subsidies are designed to improve the local standard of living and distribute wealth to the poorest areas in Europe.

- Agricultural policy:

The main objective of Europe's agricultural policy is to develop the countryside. The European Union wants to ensure continued agricultural production in all parts of Europe. The quality of food, package labelling and plant protection are controlled. The objective is to ensure that the products produced in the various parts of Europe are safe, clean and of high quality and grown with due respect for the environment. Efficient regulation limits over-production but ensures the capacity to increase production whenever necessary.