



Module: International Finance

Branch: International Trade

Level: Third year Bachelor

Lecture 09: Agencies That Facilitate International Trade

Given the inherent risks of international trade, international institutions offer various forms of export credit, export finance, and guarantee programs to reduce risk and stimulate foreign trade.

1. International Monetary fund

The IMF is an organization of 183 member countries. Established in 1946, it aims

- to promote international monetary cooperation and exchange stability;
- to foster economic growth and high levels of employment; and
- to provide temporary financial assistance to help ease imbalances of payments.
- promote cooperation among countries on international monetary issues,
- promote stability in exchange rates
- provide temporary funds to member countries attempting to correct imbalances of international payments
- promote free mobility of capital funds across countries
- Promote free trade.

Its operations involve surveillance, and financial and technical assistance. In particular, its *compensatory financing facility* attempts to reduce the impact of export instability on country economies. The IM F uses a *quota* system, and its unit of account is the *SDR (special drawing right)*. It is clear from these objectives that the IMF's goals encourage increased internationalization of business

2. World Bank Group

- Established in 1944, the Group assists development with the primary focus of helping the poorest people and the poorest countries.
- It has 183 member countries, and is composed of five organizations - IBRD, IDA, IFC, MIGA and ICSID.

3. IBRD: International Bank for Reconstruction and Development

- Better known as the World Bank, the IBRD provides loans and development assistance to middle-income countries and creditworthy poorer countries.
- In particular, its *structural adjustment loans* are intended to enhance a country's long-term economic growth.
- The IBRD is not a profit-maximizing organization. Nevertheless, it has earned a net income every year since 1948.
- It may spread its funds by entering into *cofinancing agreements* with official aid agencies, export credit agencies, as well as commercial banks.

4. IDA: International Development Association

- IDA was set up in 1960 as an agency that lends to the very poor developing nations on highly concessional terms.
- IDA lends only to those countries that lack the financial ability to borrow from IBRD.

- IBRD and IDA are run on the same lines, sharing the same staff, headquarters and project evaluation standards.

5. IFC: International Finance Corporation

The IFC was set up in 1956 to promote sustainable private sector investment in developing countries, by

- financing private sector projects;
- helping to mobilize financing in the international financial markets; and
- Providing advice and technical assistance to businesses and governments.

6. MIGA: Multilateral Investment Guarantee Agency

The MIGA was created in 1988 to promote FDI in emerging economies, by

- offering political risk insurance to investors and lenders; and
- Helping developing countries attract and retain private investment.

7. ICSID: International Centre for Settlement of Investment Disputes

The ICSID was created in 1966 to facilitate the settlement of investment disputes between governments and foreign investors, thereby helping to promote increased flows of international investment.

8. World Trade Organization (WTO)

- Created in 1995, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT).
- It deals with the global rules of trade between nations to ensure that trade flows smoothly, predictably and freely.

- At the heart of the WTO's *multilateral trading system* are its trade agreements.

Its functions include:

- administering WTO trade agreements;
- serving as a forum for trade negotiations;
- handling trade disputes;
- monitoring national trading policies;
- providing technical assistance and training for developing countries; and
- Cooperating with other international groups.

9. Bank for International Settlements (BIS)

- Set up in 1930, the BIS is an international organization that fosters cooperation among central banks and other agencies in pursuit of monetary and financial stability.

- It is the —central banks' central bank and —lender of last resort.

The BIS functions as:

- a forum for international monetary and financial cooperation;
- a bank for central banks;
- a center for monetary and economic research; and
- an agent or trustee in connection with international financial operations.

10. Regional Development Agencies

Agencies with more regional objectives relating to economic development include

- the Inter-American Development Bank;
- the Asian Development Bank;
- the African Development Bank; and
- the European Bank for Reconstruction and Development

Reference:

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