Chapter -1

Introduction

1.1. BACKGROUND

The World Bank Group, referred to as the Bank Group, is one of the world’s largest sources of funding and knowledge for developing countries. Its main focus is on helping the poorest people and the poorest countries. Through its five institutions, the Bank Group uses financial resources and extensive experience to help developing countries reduce poverty, increase economic growth, and improve the quality of life. The institutions that make up the World Bank Group specialize in different aspects of development, but they work collaboratively toward the overarching goal of poverty reduction.

The role of law in international monetary relations has been misunderstood, maligned and malnourished. However, not only is there an essential function for the institution of law in international monetary relations, but an understanding of it is fundamental to an insight into international relations.

The IMF is a special financial forum, the main purpose of which is to openly discuss the fiscal policies of its members and to avoid sever exchange restrictions on international currencies. Article 1 of the Articles of Agreement sets out the International Monetary Fund’s main responsibilities:

- Promoting international monetary co-operation;
- Facilitating the expansion and balanced growth of global trade;
- Promoting currency exchange stability;
- Assisting in the establishment of a multilateral system of payments; and
- Making its resources available (Under adequate safeguards) to members experiencing difficulties in repayments.¹

The terms “World Bank” and “Bank” refer only to IBRD and IDA, whereas the terms “World Bank Group” and “Bank Group” include all five institutions. The World Bank Group² comprises the following:

¹ Article 1 of the Articles of Agreement of IMF
• The International Bank for Reconstruction and Development (established in 1946)
• The International Development Association (established in 1960)
• The International Finance Corporation (established in 1965)
• The International Centre for Settlement of Investment Disputes (established in 1966)
• The Multilateral Investment Agency (established in 1988)

Each institution plays a different role in the World Bank’s mission for global poverty reduction and the improvement of living standards. For example, the International Bank for Reconstruction and Development focuses on middle income and creditworthy poor countries, whereas the International Development Association is mainly concerned with the poorest countries in the world. Together these provide low-interest loans, interest-free credit and grants to developing countries.

1.2. WORLD ECONOMIC DEVELOPMENT

National economic development does not take place in isolation; it occurs in the international context which plays a role. In order to understand the connection between the two and to influence national development through the world system, it is necessary to trace out, although briefly, the way the nations have become interdependent and interacting units. This is the theme that it tries to establish the point that the World Bank has become pivotal to national economic development. The world is a system; it has local, political and economic order. It is also possible to think of other derivative orders such as technological orders, information order etc. All these have complex and delicate relationship among themselves. It is not possible to disentangle them.

Commercial banks are playing a crucial role in the economic development of the countries. In fact, without the development of commercial banking in 18th and 19th

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2 The term “world bank” was first used in reference to the International Bank for Reconstruction and Development (IBRD) in an article in The Economist on July 22, 1944, in a report on the Bretton Woods Conference. The first meeting of the Boards of Governors of IBRD and the International Monetary Fund (IMF), which was held in Savannah, Georgia, in March 1946, was officially called the “World Fund and Bank Inaugural Meeting,” and several news accounts of this conference, including one in the Washington Post, used the term “world bank.” What began as a nickname became an official shorthand for IBRD and IDA in 1975.
centuries, industrial revolution would not have taken place in England at all. It is equally true that economic development of underdeveloped countries depend entirely on the development of sound commercial banking. Industrial development requires mobilization and supply of capital to trade and development. In the modern economy, banks are considered not merely as dealers in money but also as reservoirs of resources necessary for economic development. Bank which provide short-term loans serve as capital for industrial establishments. Without capital, it is impossible to start an industry. After starting the industry, banks provide the industrialists necessary short-term working capital (investment capital). Apart from providing finance for economic development, banks also create credit which enables the industry and commerce to expand economic activities.

Banks extend credit facilities to industry and trade to develop the right type of industry and business. Banks are contributing very significantly for the expansion of industrialization. Expansion of bank credit will provide more funds for the entrepreneurs to start new industries which result in more employment and income generation. It will push up the production of goods. On the other hand, a decline in bank credit will boomerang a crisis fall in production, unemployment, income etc. Commercial banks by providing funds encourage production and cause an increase in national income by means of transferring surplus resources obtained from the rural sector.

A very important service that banks render to the community is the creation of demand deposits in exchange of debts of others; i.e., short-term and long – term securities. If the flow of credit is not smooth, it jeopardizes the economy. If it is artificially curtailed, it affects the normal functioning of the economy. The banks considering the nature of the economy have to create credit and ensure that the credit is not used for non-development purposes. Banks promote capital formation by means of pooling the savings from people. They mobilize the idle and dormant capital of the community and provide it for investments. This is an important service rendered by banks. Banks can also influence the economy in many other ways. Banks can regulate the interest rates in the money market by means of regulating the supply of funds. A cheap money policy with low rate of interest will tend to stimulate economic activity during the period of deterioration. A reverse policy is followed
during depression. Thus, banks play a vital role in the economic development of the country.

**The World Bank: IBRD and IDA**

In practice both of these organizations focus mainly, although not exclusively, in imparting financial assistance in the form of loans, the facilitation of loans, and the proffering of guarantees to member states.

The World Bank has emerged as an important source of multilateral aid for development and it exercises influence over national priorities of the developing countries. The significant achievement of the Bank in India has been to integrate the country in the world system so that the international investors get a huge market for export of capital and technology to maximize their profits. The subsidiaries and branches of the multinational corporations and joint ventures between the foreign and Indian investors play a crucial role in India, and the Bank acts as eyes and ears of the international capital in India.

**1.3. OBJECTIVES OF THE STUDY.**

1) To emphasize how World Bank and IMF policies have changed overtime, how the misuse of international money becomes possible and how that misuse later unfolded.

2) To identify some problems pertaining to the promotion of international monetary co-operation through institutions which provide the machinery for consultation and collaboration on international monetary problems.

3) To evaluate the exchange stability, exchange arrangements and competitive exchange dispersion of states.

4) To study the IMF and IBRD from the point of view of aiding for economic development.

5) To understand the actual implementation of the World Bank mandate for well being of people who live in developing countries.

6) To focus on varies problems and perspective of economic co-operation in connection to financial assistance.

7) To have a look on Articles of Agreements of IMF.

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8) To study the basic features of the World Bank groups i.e. IMF, IBRD, IDA, IFC and ICSID.
9) To understand and overcome financial differences of the institutions those who are rendering and aiding developing countries.

1.4. SCOPE OF THE STUDY

The scope of the study is restricted to the working positions of World Bank group. In this study, application of international economic law is very much required. It is dealing with how the preemptory norms of the general international law would prevail whenever the question is arising between developing and developed countries regarding the economic stability among the states. It also deals with how the banking system has been changing in response to rapid institutional reforms in the financial industry. This study focuses how IMF and World Bank are to promote economic development for the benefits of the poor people in developing countries.

1.5. RESEARCH PROBLEM

1. The problems of conditionality are that the IMF does not uniformly and predictably enforce its conditions. Some of the reforms the conditions exact are not in any event achievable over the duration of the loan. Another problem is that the number of conditions the borrowing country is asked to accept is so multifarious that, with the best will, making the required changes is beyond its ability to achieve. Conditionality should “require a country to do things that it does not want to do.” In this way, conditionality is a device to access to cheap IMF credit.

2. Difficulties encountered in maintaining a system of fixed exchange rates give rise to unstable monetary and financial conditions throughout the world and led the international community to reconsider how the IMF could most effectively function in a regime of flexible rates.

3. Measuring the success of the IMF’s operations over the years is not easy, for much of the IMF’s work consists in averting financial crises or in preventing their becoming worse. It has been said that merely to have contained the debt crisis of the 1980s which posed the risk of collapse in the world’s financial system, must be counted a success for the IMF. The IMF has also recognized that unsound
financial and economic policies are often deeply rooted in long-term inefficient use of resources that resists eradication through short-term adaptations of financial policies.

4. Over time these institutions have become transformed until now they do just the opposite of what they were founded to do. Their policies dominate the national economies of most of the world. Their beneficiaries are corporations and rich elites and their policies systematically intensify conditions of poverty both here and abroad.

5. Conditionality has perverse effects. It undermines the domestic democratic processes by supplanting public policy making.

6. The extension of the practice of conditionality from the occasional circumstances of crisis management to the continuous process of general economic policy making has implied a transfer of sovereignty which is not only unprecedented but is often dysfunctional.

7. In addition, the Articles of Agreement of the IMF and the World Bank limit the scope of political conditionality to only those considerations that affect the economic factors which justify loan disbursement. Political conditionality, therefore, focuses on the behavior of the borrowing state and primarily leaves the economic programmes promoted by these institutions intact.

8. It is widely argued that the World Bank and the IMF have prescribed economic and financial policies that only fail to cure, but that in fact lead to a deterioration of aggregate economic conditions in the debtor countries and the entire world economy.

1.6. RESEARCH QUESTIONS

1. Why does the World Bank lend mainly to countries with access to private capital?
2. How does the IMF assist its members?
3. Does it mean that the international development discourse as operationalised by the World Bank is ideological?
4. Whether the World Bank group has managed to eradicate economic problems or poverty in developing countries?
5. Whether the developing countries have managed to be accountable for the money provided to them by the World Bank group?
6. Whether the projects initiated by the World Bank in the developing countries are able to eradicate poverty or improve the standard of living in those countries?
7. Does the World Bank disburse loans even if non-compliance is obvious?
8. Whether the World Bank or IMF discriminates while disbursing loans to developing countries?
9. Whether the IMF and World Bank conditionality changed and whey do the institutions conditions differ?
10. Whether the World Bank groups favour the developed countries rather than developing countries?

1.7. HYPOTHESIS

The people of the beneficiary countries, however, become responsible for repaying the debt. When the perception among the speculators is that things are going badly they may pull their money out of the country. The country may at some point be forced to devalue its currency, making repayment of the original debts a practical impossibility.

Structural adjustment has consistently meant tightening the internal money supply, increasing taxes, instituting policies that cause massive unemployment, reduction of government services and other government spending and removal of restrictions on international investment and foreign ownership of businesses.

In light of the absence of municipal legal accountability of the World Bank and the IMF and the gross inadequacies of institutional accountability mechanisms, there is a need to explore alternative mechanisms of accountability.

1.8. RESEARCH SIGNIFICANCE

The study can discuss the manner of operation of the World Bank and the IMF and attention on the lack of transparency and the democratic deficit inherent in the IMF’s operations. This research work examines the nature and dimensions of the response sought by developing countries, in the context of monetary consensus from international economic law. From the above perspectives it is important to study this
subject for great concern. The study will focus on the World Bank Group which helps to academicians, policy makers, ambassadors, statesmen, banks, economists, lawyers or judicial officers and persons who are involved in the field of world economy. Hence there is relevance from the economic stand point. The philosophical analysis of this work will reflect in near future.

1.9. METHODOLOGY

The doctrinal method has been adopted to do research work by analyzing the World Bank group assistance in the light of international economy meticulously and effectively. Books, journals, reviews, World Bank reports are helpful to focus on primary research work. The Internet resources will be referred to as primary and secondary sources of research work. In this research work, analytical, descriptive, critical evaluations and reasoning have adopted.

1.10. REVIEW OF LITERATURE

Although the concept of integration is commonly being used it is yet to have a clear meaning. The term is often used to signify the bringing together of parts of an object to form a complete whole and Mendes (1987) posits that there are two fundamental ideas which are associated with the integration concept: “the need to abolish discrimination within a spatial unit and the necessity of promoting some sort of policy coordination on issues considered as being of mutual interest”. With this in mind, Balassa (1961) defined “integration as both a process and a state of affairs”, while Robson (1984) regarded international economic integration as a means and not an end. Economic integration does not have a clear cut meaning in economics, however, the term can be used to refer to the combining of several national economies into a much larger territorial unit and although it is a concept which is often considered to be a part of the international economics field, authors have argued that economic integration is broader than Viner’s customs union theory Mutharika (1972) argues that in the economic term, integration would signify the coordination of economic policies by states within a specific region so as to attain a certain level of development. The degree of integration however, will depend on how willing member states are to share or give up a certain level of their sovereignty. Van Langenhove further states that irrespective of this commitment, regional integration programmes must satisfy certain characteristics; “reduce social elision and create a more
comprehensive civil society; Strengthen regional trade integration; Create an efficient environment for the development of the private sector; Establishment of development programmes which will encourage growth an integration; Advance the creation of effective public sector organizations and promote good governance; Boost the region’s interaction with the rest of the world and contribute to the political and economic stability of the region”.

Economists have defined the term ‘economic integration’ in several different ways over time. Economic integration is a process of eliminating restrictions on international trade, payments and factor mobility Carbaugh 2004. Economic integration thus results in the uniting of two or more national economies in regional trading agreements.

The issue of regional integration has indeed gained the interest of the world, and Africa has also recognised its importance and is now on board.

The biggest achievements in integration have been among developed countries, in particular the European Union. The EU is hailed as an example of successful regional integration, mainly because its integration has both deepened and widened in that region.

1.11. CHAPTERISATION

Chapter-1. This Chapter focuses on the Introduction of the study; it includes background, objectives of the study, importance of the study, scope of the study, research problem, research questions, and methodology of research work. It emphasizes on various aspects of methodology. Above contents of the chapter have been answered meticulously and keenly. The data collected for the purposes of finalizing this chapter is referred at the appropriate places.

Chapter-2. This chapter focuses on nature and sources of International Economic Law. It has been explored the significant policy issues that arise in the development and implementation international economic legal frameworks. It has been critically evaluated the basic principles of International Economic Law that gives a comprehensive overview of the central topics in it, with an emphasis on the interplay between the different economic and political interests on both the international and domestic levels. In this chapter customary
international economic law, guiding philosophy for the reconstruction, relevance of Rawls’ moderate liberalism and the value, international economic integration of international economic law are discussed positively.

**Chapter-3.** Chapter three highlights the international development assistance. It is discussed about the membership and organization of the World Bank, lending operations, technical assistance and other activities, the international finance corporation, environmental and social standards and advisory services are followed. The area of development economics is infinitely complex. The variables considered are similarly extensive, essentially economic but also social, cultural, political and legal.

**Chapter-4.** The Chapter four of this study shows the international economic cooperation, agreement and institutions. This work is designed significant international economic institutions and agreements. It is well organized with illustrations. This chapter is emphasizing on various aspects of economic cooperation. North American Free Trade Agreement, South Asian Association for Regional Cooperation, SAARC Preferential Trading Arrangement, South Asian Free Trade Area, Indo-Lanka Free Trade Agreement, and South-South cooperation, Basic Elements of South-South Cooperation, Guiding Principles of South-South Cooperation, Objectives of South-South Cooperation and Association of Southeast Asian Nations are referred to have a look on international cooperation.

**Chapter-5.** This chapter focuses on national economic development in the world system. Economic conditions of a state shall be looked from the perspectives of world economy. Therefore the chapter highlights the World Bank and Indian Agriculture, Agri Project in Karnataka, Population, Nutrition and Health, Population Projects Aid for Nutrition Programmes, Assistance for Health Programmes, World Bank and Power Sector, Fourth Power System Development Project, Fifth Power System Development Project, Vishnugad Pipalkoti Hydroelectric Power Project, Haryana Power System Improvement Project and Coal Fired Generation Rehabilitation Project. This has aimed at understanding the India’s position. The comparative, analytical and critical evaluation of law is incorporated.
Chapter-6. Chapter Six focuses on role of World Bank and developing countries. It deals with World Bank and Indian agriculture, agriculture project in Karnataka, population, nutrition and health, population projects, aid for nutrition programmes, assistance for health programmes, World Bank and power sector Fourth Power System Development Project, Fifth Power System Development Project, Vishnugad Pipalkoti Hydroelectric Power Project, Haryana Power System Improvement Project, Coal Fired Generation Rehabilitation Project and Rampur Hydropower Project.

Chapter-7. This last Chapter focuses on conclusion and suggestions. Here the concluding remarks are emphasized. The findings and suggestions are made on the basis of hypotheses, problems, limitations and methodology raised and answered in the respective chapters positively.

1.12. CONCLUSION

From the above perspectives the conclusion has been drawn. This chapter has come across with certain research methodology. The selection of the problem is defined appropriately at the appropriate places. For the purpose of shaping of the Thesis problems, hypothesis and objectives have been well maintained and they have been answered in the rest of the chapters.