Chapter 1
Introduction

The present study attempts at analysing the role of the International Financial Institutions (IFIs) namely the World Bank (International Bank for Reconstruction and Development and International Development Association)\(^1\), the Asian Development Bank (ADB)\(^2\) and the International Monetary Fund (IMF)\(^3\) in the economic development of South Asian economies with special reference to Indian economy. Todaro & Smith (2003)\(^4\) point out that economic development must be conceived of as a multidimensional process involving major changes in social structures, popular attitudes and national institutions, as well as the acceleration of economic growth, the reduction of inequality and the eradication of poverty. Development, in its essence, must represent the whole of gamut of change by which an entire social system tuned to the diverse basic needs and desires of individuals and social groups within that system.

Economic Growth and Economic Development are generally used as synonyms. However, these two terms imply different sets of inferences. Economic development refers to the problems of the developing countries and economic growth to those of the developed countries. By economic growth, we simply mean an increase in per capita income or increase in Gross National Product. In recent literature, the term, economic growth refers to sustained increase in a country’s output of goods and services, or more precisely, product per capita, while economic development implies change in the technological and institutional organisation of production as well as in the distributive pattern of income. Hence, process of development is far more extensive, i.e. it involves growth with change. Apart from a rise in output, it involves changes in the composition of the output, shift in the allocation of productive resources, and elimination or reduction of poverty, inequalities and unemployment. The World Development Report (1991)

\(^1\) http://go.worldbank.org/1M3PFQQMD0. Downloaded on 15.09.2011.
\(^2\) http://beta.adb.org/countries/philippines/faqs. Downloaded on 10.08.2009.
\(^3\) http://www.imf.org/external/about.htm
observes, “The challenge of development, in the broadest sense is to improve the quality of life, especially in the world’s poor countries. A better quality of life generally calls for not only higher income, but it involves much more. It encompasses as ends in themselves better education, higher standards of health and nutrition, less poverty, cleaner environment, more equality of opportunity, greater individual freedom, and a richer culture life....any notion of strictly economic progress must, at a minimum, look beyond growth in per-capita income to the reduction of poverty and greater equity, to progress in education, health and nutrition, and to the protection of the environment.” For transitional economies like that of India, there are hurdles in the form of shortage of capital, limited technology, expertise and inadequacy of institutions necessary for fostering rapid economic development. Due to the Savings-Investment gap, Export-Import gap and Technological gap, these economies are unable to mobilise the required capital for the economic development. Therefore, to achieve the goals of development these economies look for foreign capital. Foreign capital takes several forms, namely loans and grants through inter-governmental flows (bilateral flows), foreign assistance through institutions (IFIs), foreign equity capital through capital market transactions and Foreign Direct Investments (FDI). In addition, there is flow of foreign capital in the form of transfer of technology and technical know-how. Usually, every transitional economy uses any or all the above available alternatives of foreign capital for achieving the economic development.

After the Second World War (1939-45), several institutions at the international level were formed. Prominent among them were United Nations Organisation (UNO), International Bank for Reconstruction and Development (IBRD), International Monetary Fund (IMF), World Health Organisation (WHO), International Labour Organisation (ILO) etc. Out of these international institutions, the IBRD and the IMF came to be known as International Financial Institutions (IFIs). IFIs refer to financial institutions that have been established by more than one country. Their owners or shareholders are generally national

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6 Transitional economies refers to all countries which attempt to change their basic constitutional elements towards market style fundamentals.
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governments. The goal of IFIs is to establish a framework for economic cooperation and development that would lead to a more stable and prosperous global economy. The IFIs could influence the economic development via several channels, important among them are advice to policy makers and money disbursed under various programmes. Among IFIs, the Bretton Woods sisters, International Bank for Reconstruction and Development (IBRD)\(^7\) and International Monetary Fund (IMF)\(^8\) were formed in the fiscal 1944 on the basis of the Keynes Plan (prepared by John Maynard Keynes) and the White Plan (prepared by American expert Harry D. White). The basic features of these plans were fused into a common plan, which was presented at the United Nations Monetary and Financial Conference\(^9\) held in Bretton Woods in July 1944. Other IFIs include Asian Development Bank (ADB)\(^10\), African Development Bank (AfDB)\(^11\), Inter-American Development Bank (IDB)\(^12\) and European Investment Bank (EIB)\(^13\).

As the main focus of the study is regarding analysing the role of World Bank, ADB and IMF, below is the brief introduction of these IFIs :-

1.1 World Bank Group

1.1.1 Introduction

The World Bank Group (WB Group) is the vital source of financial and technical assistance to the developing countries around the world. The WB Group\(^14\) consists of five organisations namely, International Bank for Reconstruction and Development (IBRD)\(^15\), International Development Association (IDA), International Finance Corporation (IFC), International Centre for the Settlement of Investment Disputes (ICSID) and Multinational Investment

\(^{7}\) http://go.worldbank.org/SDUHVGE5S0 Downloaded on 30.08.2011.
\(^{8}\) http://www.imf.org/external/about.htm Downloaded on 30.08.2011.
\(^{9}\) United Nations Monetary and Financial Conference is also known as Bretton Woods conference, was a gathering of 730 delegates from all 44 allied nations at the Mount Washington, situatated in Bretton Woods, New Hampshire, to regulate the international and financial order after the conclusion of World War-II.
\(^{10}\) Asian Development Bank (ADB) was formed at Manila in 1966.
\(^{11}\) African Development Bank (AfDB) was formed at Lagos in 1964.
\(^{12}\) Inter-American Development Bank (IDB) was formed at Washington in 1959.
\(^{13}\) European Investment Bank (EIB) was formed at Brussels in 1958.
\(^{14}\) http://go.worldbank.org/VA8RR1BN41 Downloaded on 15.09.2011.
\(^{15}\) http://go.worldbank.org/YX2261GMX0. Downloaded on 15.09.2011.
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Guarantee Agency (MIGA). Jointly, IBRD and IDA are known as World Bank\textsuperscript{16}. The work is further, supplemented by other three agencies.

\begin{center}
\textbf{World Bank Group}
\end{center}

\begin{center}
\begin{tabular}{c c c c c}
IBRD & IDA & IFC & ICSID & MIGA \\
\end{tabular}
\end{center}

Through loans, policy advice and technical assistance, the WB Group supports a broad range of programmes. It divides its work between IBRD and IDA; IBRD assists middle-income and credit worthy poor countries while the IDA focuses, exclusively, on the world’s poorest countries\textsuperscript{17}. Working through these organisations, the WB Group uses its financial resources, skilled staff and an extensive knowledge base to help each member country to achieve sustainable and equitable growth. It emphasises the need for:

(i) Investing in people, particularly, through basic health and education;
(ii) Focusing on social development, governance and institution building as key elements of poverty reduction;
(iii) Strengthening the ability of the Governments, to deliver quality services efficiently and transparently;
(iv) Protecting the environment;
(v) Supporting and encouraging private business development;
(vi) Promoting reforms to create a stable macro-economic environment that is conducive to investment and long-term planning.

Besides this, the WB Group plays a key role in helping member countries in implementing Millennium Development Goals (MDGs)\textsuperscript{18} which the United Nations and broader International Communities seek to achieve by the fiscal 2015. Following is the brief description of the WB Group.

\textsuperscript{16} http://go.worldbank.org/1M3PFQQMD0. Downloaded on 15.09.2011.
\textsuperscript{18} The Millennium Development Goals (MDGs) are the world's time-bound and quantified targets for addressing extreme poverty in its many dimensions- income, poverty, hunger, disease, lack of adequate shelter, and exclusion-while promoting gender equality, education, and environmental sustainability. They are also basic human rights-the rights of each person on the planet to health, education, shelter, and security. http://www.unmillenniumproject.org/goals/index.htm.
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(a) International Bank for Reconstruction and Development (IBRD):

This is the brainchild of Bretton Woods Conference held in Bretton Woods in July 1944, and it was established in the same year. It is the first amongst the WB Group, formed with the objectives (i) to reconstruct the war damaged economies and (ii) to develop the less developed economies. It began its operations in the fiscal 1946 with 38 founder members, which, subsequently, increased to 187 in fiscal 2008\(^\text{19}\), out of which more than 100 members are from the developing world. The IBRD provides loans to credit worthy borrowers for specific projects (focused on poverty reduction, environmental protection and economic growth). Loans are generally repayable in fifteen to twenty years with a grace period of five years and are sanctioned out of Bank’s own funds and out of capital, borrowed from the member countries. Further, loans are sanctioned to the Government and private concerns but are required to be backed by a Government guarantee. IBRD provides lending to the middle-income countries, where 70% of the world’s poor live\(^\text{20}\). Over the period of study, the role of IBRD has completely shifted to the development of member countries. IBRD provides lending, specifically, for:

(i) Supporting long-term human and social development needs that private creditors do not finance;
(ii) Preserving the borrower’s financial strength by providing support in crisis periods when poor people are most adversely affected;
(iii) Using the leverage of financing to promote key policy and institutional reforms (such as anti-corruption reforms);
(iv) Creating a favorable investment climate in order to catalyze private investments;
(v) Providing financial support in areas that are critical to the well-being of the poor people in all countries.

(b) International Development Association (IDA)

After rebuilding the war-torn Europe, the Bank’s member countries decided to form an institution that could lend to very poor developing nations on easier terms. Hence, the second unique development institution, named the


International Development Association (IDA)\textsuperscript{21} was established in fiscal 1961 with 15 member countries and with an initial funding of US$ 912.7 million. Main focus of IDA is on the poorest countries, to which it provides interest-free loans and grants.\textsuperscript{22} The IDA sanctions loans, known as credits, or soft loans, at highly concessional terms. The lending terms are determined with reference to recipient countries’ risk of debt distress, the level of Gross National Income (GNI) per capita, and creditworthiness for IBRD borrowing. All the members of IBRD are the members of IDA. The credits provided by the IDA works for:

(i) Building human capital, policies, institutions and physical infrastructure that member countries urgently need to achieve faster environmentally sustainable growth;

(ii) In reducing disparities across and within countries, especially, in terms of access to primary education, basic health and water supply & sanitation;

(iii) Lastly, bringing more people into the economic mainstream by raising their productivity.

IDA is the largest source of concessional financial assistance for the world’s poorest countries.\textsuperscript{23} In the fiscal 1961, Honduras received the first-ever IDA credit of US$ 9 million for highway development and maintenance. In the fiscal 1962, the IDA provided its first credit for education, for the construction of schools to Tunisia. In fiscal 2008, 79 developing countries, having a population of 2.5 billion (half of the population of the developing countries) were eligible to borrow from the IDA.\textsuperscript{24} The IDA sanction loans (credits) only to the Governments at zero rate of interest with ten years grace period and maturities of thirty-five to forty years.\textsuperscript{25}

Both, IBRD and IDA constitue the World Bank. Initially, only the countries, which were the members of the IMF, could become the members of the World Bank, but now any country can become the member of the World Bank if its application is supported by 75% of the existing members. Before providing a loan, the competent committees of the World Bank submit reports on the project.

\textsuperscript{21} http://go.worldbank.org/ZRAOR8IWW0. Downloaded on 15.09.2011.
\textsuperscript{24} http://go.worldbank.org/ZRAOR8IWW0. Downloaded on 03.9.2008
\textsuperscript{25} http://www.worldbank.org/the IDA. Downloaded on 19.06.2010
Based upon the reports submitted by the committee, the decision regarding lending is finalised.

(c) **International Finance Corporation (IFC)**

IFC is the first amongst the three complementary institutions of the WB Group. It was formed in the fiscal 1956 to promote economic development through the private sector by working with business partners of member countries. The IFC invests in sustainable private enterprises in the developing countries without taking Government guarantees. This direct lending to private enterprises is the fundamental contrast between the IFC and the IBRD, the IDA. The IFC mainly provides equity, long-term loans, loan guarantees, risk management products and advisory services to its clients. It is the largest multilateral source of loan and equity financing for the private sector projects in the developing countries for which it charges the market rate of interest. IFC’s first investment took place in the fiscal 1957 in Brazil to Siemens's affiliate for manufacturing electrical equipment. In fiscal 2008, it had 182 members.

(d) **International Centre for the Settlement of Investment Disputes (ICSID)**

ICSID was formed in fiscal 1966 as an autonomous international institution, established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. The primary purpose of ICSID is to provide facilities for conciliation and arbitration of international investment disputes. In fiscal 2008, it had 144 members.

(e) **Multinational Investment Guarantee Agency (MIGA)**

MIGA was set up in the fiscal 1988, to encourage foreign investment in the developing countries by providing a guarantee to foreign investors against the loss caused by non-commercial risks such as expropriation, war and civil disturbance or breach of contract. In addition, MIGA provides technical assistance to help the developing countries to promote investment opportunities and uses its legal services to reduce possible impediments to investments. It also acts as an

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26 [http://icsid.worldbank.org/ICSID/Index.jsp](http://icsid.worldbank.org/ICSID/Index.jsp) Downloaded on 10.11.2011

Includes protection against losses arising from an investor’s inability to legally convert local currency (capital, interest, principal, profits, royalties, and other remittances) into hard currency (Dollar, Euro or Yen) and/or to transfer hard currency outside the host country where such a situation results from a government action or failure to act.
important catalyst to promote FDI in the developing countries. In fiscal 2008, it had 175 members and had issued a guarantee worth US$ 1.4 billion.

1.1.2 The World Bank Lending Operations: 1981-2008

The Bank’s first development loan for the Less-Developed Countries’ (LDCs) was requested by Chile, and on March 25, 1948, the Bank provided its first development loan worth US$ 50 million, in power and irrigation to Chile.

Table 1.1: Total Lending by the World Bank: 1981-2008 (US$ Million)

<table>
<thead>
<tr>
<th>Years</th>
<th>IBRD Loans</th>
<th>IDA Credits</th>
<th>World Bank Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Loans</td>
<td>Amount</td>
<td>Cumulative Amount</td>
</tr>
<tr>
<td>1981</td>
<td>140</td>
<td>8809</td>
<td>68324.5</td>
</tr>
<tr>
<td>1982</td>
<td>150</td>
<td>10330</td>
<td>78654.5</td>
</tr>
<tr>
<td>1983</td>
<td>136</td>
<td>11138</td>
<td>89792.5</td>
</tr>
<tr>
<td>1984</td>
<td>129</td>
<td>101739.5</td>
<td>33655</td>
</tr>
<tr>
<td>1985</td>
<td>131</td>
<td>11358</td>
<td>113097.5</td>
</tr>
<tr>
<td>1986</td>
<td>131</td>
<td>8263</td>
<td>121360.5</td>
</tr>
<tr>
<td>1987</td>
<td>127</td>
<td>14188</td>
<td>135548.5</td>
</tr>
<tr>
<td>1988</td>
<td>118</td>
<td>14762</td>
<td>150310.5</td>
</tr>
<tr>
<td>1989</td>
<td>119</td>
<td>16433</td>
<td>166743.5</td>
</tr>
<tr>
<td>1990</td>
<td>121</td>
<td>15180</td>
<td>181923.5</td>
</tr>
<tr>
<td>1991</td>
<td>126</td>
<td>16392</td>
<td>198315.5</td>
</tr>
<tr>
<td>1992</td>
<td>112</td>
<td>15156</td>
<td>213471.5</td>
</tr>
<tr>
<td>1993</td>
<td>122</td>
<td>16945</td>
<td>230416.5</td>
</tr>
<tr>
<td>1994</td>
<td>124</td>
<td>14244</td>
<td>244660.5</td>
</tr>
<tr>
<td>1995</td>
<td>114</td>
<td>16853</td>
<td>261513.5</td>
</tr>
<tr>
<td>1996</td>
<td>129</td>
<td>14488.1</td>
<td>276001.6</td>
</tr>
<tr>
<td>1997</td>
<td>380</td>
<td>14525</td>
<td>290526.6</td>
</tr>
<tr>
<td>1998</td>
<td>438</td>
<td>21086.2</td>
<td>311612.8</td>
</tr>
<tr>
<td>1999</td>
<td>131</td>
<td>22182</td>
<td>333794.8</td>
</tr>
<tr>
<td>2000</td>
<td>97</td>
<td>10919</td>
<td>344731.8</td>
</tr>
<tr>
<td>2001</td>
<td>91</td>
<td>10487</td>
<td>355200.8</td>
</tr>
<tr>
<td>2002</td>
<td>96</td>
<td>11452</td>
<td>366652.8</td>
</tr>
<tr>
<td>2003</td>
<td>99</td>
<td>11231</td>
<td>377883.8</td>
</tr>
<tr>
<td>2004</td>
<td>87</td>
<td>11045</td>
<td>388928.8</td>
</tr>
<tr>
<td>2005</td>
<td>118</td>
<td>13611</td>
<td>402539.8</td>
</tr>
<tr>
<td>2006</td>
<td>112</td>
<td>14135</td>
<td>416674.8</td>
</tr>
<tr>
<td>2007</td>
<td>112</td>
<td>12829</td>
<td>429503.8</td>
</tr>
<tr>
<td>2008</td>
<td>99</td>
<td>13468</td>
<td>442971.8</td>
</tr>
</tbody>
</table>

Introduction

Up to fiscal 2008, the World Bank approved a total of US$ 635,597.6 million including US$ 192,625.8 million advanced by the IDA (30.30% of the total amount) and US$ 442,971.8 million by IBRD (69.70% of the total amount) shown in Table 1.1. On an average, the World Bank approved loans of about US$ 8,827.7 million per annum.

Sectoral Distribution of World Bank Lending: 1981-2008

Fig. 1.1, 1.2, 1.3, 1.4 and Appendix-I explain the data regarding World Bank’s sectoral lending for the fiscal 1981, 1990, 2000 and 2008. In the fiscal 1981, World Bank provided maximum lending to Agriculture and Rural Development sector (30.12%) followed by Energy and Mining (16.20%), and Development and Finance Companies (9.1%). Public Health and Nutrition sector received the minimum lending (0.1%) from the total share. Sectors like Tourism, Law Justice and Public Administration, Public Sector Management, Economic Policy, Environment and Social Protection received nothing.

In fiscal 1990 (Fig. 1.2), the maximum lending was given to Agriculture and Rural Development sector (17.66%) followed by Energy and Mining sector (15.96%) and Non-Project (14.70%) while the technical assistance received the minimum share of 0.68% in total lending. The sectors like Tourism, Law Justice and Public Administration, Economic Policy, Environment, etc. received no allocation. For the fiscal 2000 (Fig. 1.3) Public Sector Management received the maximum share (14.90%) followed by Development Finance Companies (12.05%) and Transportation (11.13%). The Agriculture and Rural Development sector received just 7.42% of the total lending. There was no allocation to the sectors like Industry, Small Scale Enterprises, Tourism and Law Justice and Public Administration. In the fiscal 2008 (Fig. 1.4), the maximum allocation was given to Law Justice and Public Administration (21%) followed by Transportation (19%), Energy and Mining (17%). Sectors like Small Scale Enterprises, Public Sector Management, Urbanization, Economic Policy, Environment and Social Protection received no allocation. The share of Agriculture and Rural Development has decreased to 6%.

For the overall period (1981-2008), the lending amount has shown an rising trend. World Bank has provided maximum lending to Agriculture and Mining sector in the fiscal 1981 and 1990, shifting maximum allocation to Public Sector Management and Development Finance Companies in the fiscal 2000 and then to...
Law Justice and Public administration and Transportation in the fiscal 2008. Over the years, the lending pattern has shown changes in terms of sectoral allocation.

**Fig. 1.1: Sectoral Distribution by the World Bank: Fiscal 1981**

**Source:** Constructed on the basis of data given in Appendix-I.

**Fig. 1.2: Sectoral Distribution by the World Bank: Fiscal 1990**

**Source:** Constructed on the basis of data given in Appendix-I.
Fig. 1.3: Sectoral Distribution by the World Bank: Fiscal 2000

Source: Constructed on the basis of data given in Appendix-1.

Fig. 1.4: Sectoral Distribution by the World Bank: Fiscal 2008

Source: Constructed on the basis of data given in Appendix-1.
1.1.3 Geographical Distribution of the World Bank Lending Operations

For the fiscal 2008, as per the Table 1.2, World Bank had allocated the highest amount to Africa (US$ 5686.1 million), followed by Latin America and the Caribbean countries (US$ 4697.2 million), East Asia and Pacific (US$ 4450.0 million), Europe and Central Asia (US$ 4202.7 million), South Asia (US$ 4202.7 million). The Middle East and North Africa got the minimum share (US$ 1483.3 million).

Table 1.2 Geographical Distribution of World Bank Lending Operations: Fiscal 2008 (US$ Million and %)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Region</th>
<th>World Bank (US$ Million)</th>
<th>IBRD (US$ Million)</th>
<th>IDA (US$ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Africa</td>
<td>5686.1 (23%)</td>
<td>59.5 (1.0%)</td>
<td>5626.5 (98.95%)</td>
</tr>
<tr>
<td>2.</td>
<td>East Asia and Pacific</td>
<td>4450 (18%)</td>
<td>2652.4 (59.6%)</td>
<td>1797.6 (40.4%)</td>
</tr>
<tr>
<td>3.</td>
<td>Europe and Central Asia</td>
<td>4202.7 (17%)</td>
<td>3753.3 (89.3%)</td>
<td>449.4 (10.69%)</td>
</tr>
<tr>
<td>4.</td>
<td>Latin America and the Caribbean</td>
<td>4697.2 (19%)</td>
<td>4360.2 (92.8%)</td>
<td>337 (7.26%)</td>
</tr>
<tr>
<td>5.</td>
<td>Middle East and North Africa</td>
<td>1483.3 (6%)</td>
<td>1248.4 (84.2%)</td>
<td>234.9 (15.84%)</td>
</tr>
<tr>
<td>6.</td>
<td>South Asia</td>
<td>4202.7 (17%)</td>
<td>1394.6 (33.2%)</td>
<td>2808.7 (66.8%)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>24722.3 (100%)</td>
<td>13468 (54.5%)</td>
<td>11254.3 (45.52%)</td>
</tr>
</tbody>
</table>


Discussing individually, during fiscal 2008, the IBRD had lent the largest amount to Latin America and the Caribbean (US$ 4360.2 million), followed by Europe and Central Asia (US$ 3753.3 million), East Asia and Pacific (US$ 2652.4 million), South Asia (US$ 1394.6 million), Middle East and North Africa (US$ 1248.4 million) and Africa (US$ 59.5 million). The IDA had lent the largest amount (US$ 5626.5 million) to Africa, followed by South Asia (US$ 2808.7 million), East Asia and Pacific (US$ 1797.6 million), Europe and Central Asia
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(US$ 449.4 million), Latin America and the Caribbean (US$ 337 million), and Middle East and North Africa (US$ 234.9 million).

1.2 Asian Development Bank

1.2.1 Introduction:

In the first-ever, ministerial conference on Asian Economic Cooperation held in Manila in the fiscal 1963, organised by the Economic and Social Commission for Asia and Pacific (ESCAP)—then known as Economic Commission for Asia and Far East (ECAFE), a proposal to establish Asia’s regional development was discussed. As a result, in Dec. 1966, the ADB came into existence, after the inaugural meeting of the Board of Governors, held in Tokyo on November 24-26, 1966. ADB is an international development finance institution whose mission is to help its Developing Member Countries (DMCs) reduces poverty and improves the quality of life of their people.28

Purpose and Functions of Asian Development Bank:

According to the charter of the ADB, the purpose30 of the Bank is “............ to foster economic growth and co-operation in the region of Asia and Far East......and to contribute in the acceleration to the process of economic development of Developing Member Countries (DMCs) in the region individually and collectively”. To fulfill its purpose, the Bank shall have the following functions:

(i) To promote investment in the Economic Commission for the Asia and Far East (ECAFE) region of public and private capital for development purposes;

(ii) To utilise the resources, at its disposal, for financing development of the DMCs in the region, giving priority to those regional, sub-regional as well as national projects and programmes, which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the smaller or less-developed member countries in the region;

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(iii) To meet requests from members in the region, to assist them in the coordination of their development policies and plans with a view to achieve better utilization of their resources, making their economies more complementary, and promoting the orderly expansion of their foreign trade, in particular, intra-regional trade;

(iv) To provide technical assistance for the preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals;

(v) To co-operate, in such a manner as the Bank may deem appropriate, within the terms of this Agreement, with the United Nations, its organs and subsidiary bodies including, in particular, the Economic Commission for Asia and the Far East, and with public international organizations and other international institutions, as well as national entities, whether public or private, which are concerned with the investment of development funds in the region, and to interest such institutions and entities in new opportunities for investment and assistance; and;

(vi) To undertake such other activities and provide such other services as may advance its purpose.

The first President of ADB, Mr. Takeshi Watanabe, during his first address at the opening ceremony, remarked, “The Asian Development Bank is like a family doctor who tries to know and learn everything possible about his patients, so that he may be able to help the patients in their time of need. At the same time, however, when we find that our patient needs the help of a “Specialist,” we refer him to big-city Doctor- the WB Group, and we ask his help.”

The membership of the ADB is open to the members of ESCAP, to the associate members of ESCAP and to the other countries in the ESCAP region, which are members of the United Nations or any of its specialised agencies. ADB’s main partners are the governments, the private sectors, non-government organisations, development agencies, community-based organisations and foundations. The ADB lends to the public sector and to the governments and also provides direct assistance to the private enterprises of the developing countries through equity investments, guarantees and loans.
1.2.2 The Asian Development Bank Lending Operations: 1981-2008

Operational activity of the ADB constitutes of loans, grants, guarantees, equity investments, regional activities and technical assistance grants. Loans are sanctioned in the form of government guaranteed loans and private sector loans, which are generally funded, from Ordinary Capital Resources (OCR) and from Special Funds Resources such as Asian Development Fund (ADF). Lending from OCR bears the interest to the members, hence known as Bank’s interest-bearing window, while the lending from the ADF is at concessional rate, hence known as Bank’s soft lending window. Equity Investment is provided in projects directly or through financial intermediaries such as investment funds in order to facilitate the launching of new venture or the privatisation of state-owned enterprise. Technical Assistance is provided to the Under Developed Countries (UDCs) either on a grant or on a loan basis or on a combination of both. Such Technical Assistance is provided for the formulation of development projects and for the promotion of study of specific economic problems of national or regional importance.

Table 1.3 explains the trend in total lending operations of the ADB from 1981 to 2008. On observing the lending from the OCR, it is found that the numbers of projects have increased, from 29 in the fiscal 1981 to 57 in the fiscal 2008 with some variations in between and the approval for the same period has increased from US$ 1146.7 million to US$ 8360 million. Projects from the ADF have increased from 27 in the fiscal 1981 to 35 in the fiscal 2008, while the amount approved has increased from US$ 530.9 million to US$ 1764 million in the fiscal 2008. Thus, for the same period the lending from the OCR has increased by 7.29 times and of the ADF by 3.32 times. The total ADB lending (OCR and ADF) has increased from US$ 1617.6 million in the fiscal 1981 to US$ 10124 million in the fiscal 2008. As far as Technical Assistance is concerned, both, the number of projects as well as loans approved have increased from 62 and US$ 16.6 million in the fiscal 1981 to 298 and US$ 273 million respectively in the

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52 OCR constitutes of paid-up Capital Funds raised through borrowings from the international money markets, retained earnings and proceeds from borrowings. Special Funds Resources such as ADF, arrange contributions from member countries and of resources set aside from the paid in capital. http://www.adb.org/documents/reports/charter/charter.pdf (Articles No. 7 and 19-20).
54 A nation, which lacks industrialisation, infrastructure, developed agriculture and developed natural resources and suffers from a low per capita income, when compared with other nations.
Table 1.3 Total Lending by Asian Development Bank: 1981-2008 (US$ Million)

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Ordinary Capital Resources (OCR)</th>
<th>Asian Development Fund (ADF)</th>
<th>TOTAL (OCR+ADF)</th>
<th>Technical Assistance (T.A.)</th>
<th>Equity Investment (E.I.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Projects</td>
<td>Amount Approved</td>
<td>Amount Disbursed</td>
<td>No. of Projects</td>
<td>Amount Approved</td>
</tr>
<tr>
<td>1981</td>
<td>29</td>
<td>1146.7</td>
<td>518</td>
<td>27</td>
<td>530.9</td>
</tr>
<tr>
<td>1982</td>
<td>32</td>
<td>1184.5</td>
<td>619.6</td>
<td>25</td>
<td>546.1</td>
</tr>
<tr>
<td>1983</td>
<td>26</td>
<td>1189.8</td>
<td>715.4</td>
<td>29</td>
<td>703.4</td>
</tr>
<tr>
<td>1984</td>
<td>26</td>
<td>1550.7</td>
<td>702.2</td>
<td>23</td>
<td>683.6</td>
</tr>
<tr>
<td>1985</td>
<td>25</td>
<td>1271.2</td>
<td>620</td>
<td>23</td>
<td>636.9</td>
</tr>
<tr>
<td>1986</td>
<td>26</td>
<td>1369.2</td>
<td>611.8</td>
<td>25</td>
<td>635.8</td>
</tr>
<tr>
<td>1987</td>
<td>22</td>
<td>1480.9</td>
<td>692.8</td>
<td>30</td>
<td>957.6</td>
</tr>
<tr>
<td>1988</td>
<td>29</td>
<td>2062.2</td>
<td>957.4</td>
<td>32</td>
<td>1033.4</td>
</tr>
<tr>
<td>1989</td>
<td>34</td>
<td>2260.3</td>
<td>1346.5</td>
<td>35</td>
<td>1363.3</td>
</tr>
<tr>
<td>1990</td>
<td>27</td>
<td>2491.7</td>
<td>1689.1</td>
<td>36</td>
<td>1480.5</td>
</tr>
<tr>
<td>1991</td>
<td>42</td>
<td>3403</td>
<td>2066.2</td>
<td>33</td>
<td>1347.2</td>
</tr>
<tr>
<td>1992</td>
<td>35</td>
<td>3846.7</td>
<td>1870.6</td>
<td>32</td>
<td>1153.9</td>
</tr>
<tr>
<td>1993</td>
<td>37</td>
<td>3933.8</td>
<td>2016.2</td>
<td>40</td>
<td>1297.5</td>
</tr>
<tr>
<td>1994</td>
<td>24</td>
<td>2590.8</td>
<td>2501.4</td>
<td>26</td>
<td>1176.7</td>
</tr>
<tr>
<td>1995</td>
<td>36</td>
<td>4031</td>
<td>2442.1</td>
<td>37</td>
<td>1454.9</td>
</tr>
<tr>
<td>1996</td>
<td>45</td>
<td>3664</td>
<td>2563</td>
<td>44</td>
<td>1665</td>
</tr>
<tr>
<td>1997</td>
<td>42</td>
<td>7794</td>
<td>5304</td>
<td>49</td>
<td>1619</td>
</tr>
<tr>
<td>1998</td>
<td>39</td>
<td>4095</td>
<td>5623</td>
<td>27</td>
<td>987.1</td>
</tr>
<tr>
<td>1999</td>
<td>34</td>
<td>3908</td>
<td>5710</td>
<td>32</td>
<td>1070</td>
</tr>
<tr>
<td>2000</td>
<td>39</td>
<td>4060</td>
<td>2884</td>
<td>49</td>
<td>1592</td>
</tr>
<tr>
<td>2001</td>
<td>30</td>
<td>3977</td>
<td>2850</td>
<td>46</td>
<td>1361</td>
</tr>
<tr>
<td>2002</td>
<td>35</td>
<td>4008</td>
<td>3067</td>
<td>53</td>
<td>1650</td>
</tr>
<tr>
<td>2003</td>
<td>37</td>
<td>4706</td>
<td>2688</td>
<td>47</td>
<td>1379</td>
</tr>
<tr>
<td>2004</td>
<td>32</td>
<td>3997</td>
<td>2508</td>
<td>47</td>
<td>1242</td>
</tr>
<tr>
<td>2005</td>
<td>32</td>
<td>4421</td>
<td>3498</td>
<td>40</td>
<td>1376</td>
</tr>
<tr>
<td>2006</td>
<td>35</td>
<td>5992</td>
<td>4420</td>
<td>44</td>
<td>1272</td>
</tr>
<tr>
<td>2007</td>
<td>60</td>
<td>7623</td>
<td>5234</td>
<td>36</td>
<td>1893</td>
</tr>
<tr>
<td>2008</td>
<td>57</td>
<td>8360</td>
<td>6472</td>
<td>35</td>
<td>1764</td>
</tr>
</tbody>
</table>


Notes:
(i) Cumulative totals may not add due to rounding.
(ii) Projects financed from both OCR and ADF are counted only once.
(iii) Equity Investment started in fiscal 1985.
fiscal 2008. Thus, there is 16.4 times increase in the lending amount through this instrument.

Equity Investment started from the fiscal 1983 with 2 numbers of investments, total amounting to US$ 3 million and reaching the highest amount of US$ 123 million with 7 numbers of investments in the fiscal 2008 (Table 1.3), hence making a remarkable increase in Equity Investment by 41 times.

**Sectoral Distribution of ADB Lending: 1981-2008**

Fig. 1.5, 1.6, 1.7, and Appendix-II explain the trend regarding the ADB lending. From Fig. 1.5 it is observed that from 1981-90, the maximum lending was received by Production Sector (44.4%), followed by Infrastructure Sector (38.5%) and Social Sector (15.8%). During 1991-2000, the share of Production sector has decreased to 29.36% and that of Infrastructure Sector and Social sector has increased to 45.17% and 17.32%) respectively. During 2001-08, Infrastructure sector again received maximum share of 45% followed by Production sector (19.96%). During this period the Law, Economic Management and Public Policy sector received 9.82%, whose share was 0% from 1981-90, and 1991-2000.

**Fig. 1.5: Sectoral Distribution by the Asian Development Bank: 1981-90**

![Graph showing sectoral distribution](image)

**Source:** *Constructed on the basis of data given in Appendix-II.*
Introduction

Fig. 1.6: Sectoral Distribution by the Asian Development Bank: 1991-2000

Source: Constructed on the basis of data given in Appendix-II.

Fig. 1.7: Sectoral Distribution by the Asian Development Bank: 2001-08

Source: Constructed on the basis of data given in Appendix-II.
Initially, Production sector was receiving the maximum share of the total lending, which was gradually taken by the Infrastructure sector. Over the years, the lending pattern of ADB has shown drastic changes in terms of sectoral allocation.

1.2.3 Geographical Distribution of the Asian Development Bank Lending Operations

The pattern of sub-regional distribution of the ADB lending operations (for the fiscal 2008, and cumulative disbursements) has been elucidated in Table 1.4. For the fiscal 2008, the highest share from the total amount (US$ 11329 million) was allocated to the South-East Asia, amounting to US$ 4342.4 million (38.33%) followed by South Asia US$ 2646.4 million (23.36%), Central and West Asia US$ 1848.9 million (16.32%), East Asia US$ 1490.9 million (13.16%), the share of Pacific sub-region is the minimum, amounting to US$ 235.6 million (2.08%).

Table 1.4: Geographical Distribution of the ADB Lending Operations: Fiscal 2008 and as on 31.12.2008 (US$ million and %)

<table>
<thead>
<tr>
<th>Sub-Region</th>
<th>Total Disbursements for the fiscal 2008</th>
<th>Cumulative Disbursements as on 31.12.2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ Million</td>
<td>%</td>
</tr>
<tr>
<td>East Asia</td>
<td>1490.9</td>
<td>13.16</td>
</tr>
<tr>
<td>Central and West Asia</td>
<td>1848.9</td>
<td>16.32</td>
</tr>
<tr>
<td>The Pacific</td>
<td>235.6</td>
<td>2.08</td>
</tr>
<tr>
<td>South Asia</td>
<td>2646.4</td>
<td>23.36</td>
</tr>
<tr>
<td>South East Asia</td>
<td>4342.2</td>
<td>38.33</td>
</tr>
<tr>
<td>Regional</td>
<td>764.7</td>
<td>6.75</td>
</tr>
<tr>
<td>Total</td>
<td>11329</td>
<td>100.00</td>
</tr>
</tbody>
</table>


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55 East Asia includes: People’s Republic of China, Mongolia.
Central &West Asia includes: Afghanistan, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, Uzbekistan.
South Asia includes: Bangladesh, Bhutan, India, Maldives, Nepal, Sri-Lanka.
South-East Asia includes: Brunei Darussalam, Cambodia, Indonesia, Laos, People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.
On cumulative basis, South Asia has been allocated the maximum lending worth US$ 38591.2 million (39.10%) followed by South-East Asia US$ 37048.5 million (37.19%), East Asia US$ 19326.2 million (19.40%). On the other hand, the Central and West Asia has received US$ 2879 million (2.89%), and the Pacific received the minimum share of US$ 1265.1 million (1.2%) from cumulative lending. The major chunk of commitments is mainly allocated in the sub-region – South Asia and South-East Asia.

1.3 International Monetary Fund (IMF)

1.3.1 Introduction

To ensure the stability of International Monetary System, the 45 member countries shared an idea in the Bretton Woods Conference (July 1944) to build a framework for economic cooperation, which resulted in the formation of International Monetary Fund (IMF) also known as “Fund.” The IMF’s primary purpose is to ensure the stability of the International Monetary System—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from each other. This is essential for sustainable economic growth and rising living standards. The IMF came into existence in December 1945 and started its operations in fiscal 1947. It started with 30 member countries and reached to 187 members in the fiscal 2008.

Functions:

Among all the IFIs, the IMF is best known for providing resources to member countries experiencing temporary Balance of Payments problem, on the condition that the borrower undertakes economic adjustment to address these difficulties. It is unique IFI in its combination of regulatory, consultative and financial functions, which are explained below-

Regulatory functions: IMF can restrict the payments and transfer for current international transactions for not submitting the required information and statistical data.


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Consultative functions: It covers activities related with regular monitoring and peer review by other members of economic and financial development and policies in each of its member country. In addition, IMF reviews the world economies, financial market developments, and semi-annual consideration of the world outlook.

Financial functions: IMF provides the provision of temporary Balance of Payments (BoP), financing and administration of Special Drawing Rights (SDR) system, concessional lending and debt relief to the poorest members.

Service and Supplementary Informational Functions: These voluntary and supportive functions include a wide range of the programme of technical assistance and cover an arrangement of statistical and non statistical activities, most notably the collection and dissemination of economic and financial data on its member countries, reporting on member countries and global surveillance assessments, and disseminating its policies and research findings.

The IMF activities are aimed at promoting policies and strategies through which its members can work together to ensure a stable world financial system and sustainable financial growth.

Original aims:

The original main goals of the IMF were
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 the multilateral system of payment;
v. Making resources available (with adequate safeguards) to members experiencing BoP difficulty.

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38 Special Drawing Rights (SDRs) are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund (IMF). SDRs are allocated to members in proportion to their IMF quotas. Recipient country can use SDRs to obtain foreign exchange from other members and to make payments to the IMF. The value of the SDR is based on the weighted average of the values of a basket of major international currencies.


1.3.2 International Monetary Fund Lending Operations

France became the first country to draw funds from the IMF in fiscal 1947, followed by Netherland and Mexico. The bulk of IMF lending is provided under medium-term Stand-By Arrangements to address BoP difficulties of a temporary or cyclic nature. This facility was started in fiscal 1952. The underlying conditions for the members are to adopt policies that provide assurance regarding resolving of BoP difficulties within a reasonable period. Belgium became the first country to enter into Stand-By Arrangements (SBA) in fiscal 1952. In fiscal 1969, the Articles of Agreements (AoA) was amended to create Special Drawing Rights (SDR) in response to the threat of a shortage of international liquidity.

Further, in the fiscal 1974, the Extended Fund Facility (EFF) was set up to provide longer-term assistance to those member countries that needed several years to address the economic weakness leading to their BoP problems. In the fiscal 1975, Kenya became the first country to benefit from Extended Fund Facility (EFF). In fiscal 1986, the IMF introduced Structural Adjustment Facility (SAF) to provide additional BoP assistance on concessional terms to the poor member countries. In December 1987, Enhanced Structural Adjustment Facility (ESAF) was introduced to augment the availability of concessional resources to low-income countries. The purpose of SAF and ESAF was to help the poor member countries to undertake strong macroeconomic and structural programmes to improve their BoP positions and economic growth. In fiscal 1999, with an objective to give explicit attention to poverty reduction, the ESAF was replaced with Poverty Reduction and Growth Facility (PRGF). The objective of assistance provided under PRGF is to sustained poverty reduction growth. This facility is available on the condition that a member has to adopt three years the PRGF arrangement along with Poverty

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SBA is an economic program of the IMF involving financial assistance to a member state, arising from a financial crisis. It is dominant lending instrument of the IMF.

International Liquidity is the ability of a country to purchase goods & services from another country. It is the combination of a country’s readily available supply of foreign currency and the degree to which its assets may be used as a form of payment or converted to the currency of the country with which it is trading.

Annual Report 2007, IMF, Washington, Pg.34.

PRGF was introduced as the key instrument for the IMF to support member countries in implementing the PRSP approach.
Reduction Strategy Paper (PRSP)\textsuperscript{45}, prepared by the member in a participatory process and integrating micro-economic, structural and poverty reduction policies.

In the fiscal 1996, in collaboration with the World Bank, the IMF further launched an initiative for the Heavily Indebted Poor Countries (HIPC)\textsuperscript{46}, with the aim of reducing the external debt of the world’s poor and heavily indebted countries to sustainable levels in the reasonably short period. This initiative is intended to help members to proceed towards the United Nations MDGs. A country must satisfy the following set of criteria to qualify for HIPC initiative and to become a member:\textsuperscript{47}

- Member should be eligible for concessional assistance from the IMF (under Extended Credit Facility) and the World Bank (from IDA);
- Faces an unsustainable debt burden;
- Establishes a track record of reform and sound policies;
- Have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process in the country.

Multilateral Debt Relief Initiative (MDRI) is another joint programme of the IMF, the IDA and the African Development Fund (AfDF), to provide 100\% relief on eligible debt from these three multilateral institutions, to a group of low-income countries.\textsuperscript{48} Further, it was agreed that the countries with a per capita income of US$ 380 a year or less will receive debt relief, financed by the IMF’s own resources, while the HIPC with a per capita income above this, will receive debt relief from bilateral contributions administered by the IMF. Under

\textsuperscript{45} A PRSP contains an assessment of poverty and describes the macroeconomic, structural, and social policies and programs that a country will pursue over several years to promote growth and reduce poverty, as well as external financing needs and the associated sources of financing. They are prepared by governments in low-income countries through a participatory process involving domestic stakeholders and external development partners, including the IMF and the World Bank.

\textsuperscript{46} This initiative defines a country as ‘heavily indebted’ if so-called ‘traditional debt relief mechanisms’ are unlikely to reduce its external debt to a sustainable level, debt sustainability being largely determined by a Net Present Value (NPV).


\textsuperscript{48} It is pertinent to point out that in their well-directed efforts to solve the debt problems of low-income countries; these IFIs jointly started a special programme in fiscal 2009. http://www.imf.org/external/np/exr/facts/mdri.htm. Downloaded on 29.03.2011.
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Multilateral Debt Relief Initiative (MDRI), the IMF has agreed to wave off whole of the US$ 3.3 billion debt owed to it by nineteen of the world’s poorest countries.

Non-lending assistance, in the form of technical assistance and training is offered in the Fund’s core area of expertise, including macro-economic policy, revenue administration, exchange systems, financial sector reforms and financial statistics. In recent years, requested assistance is provided in addressing issues relating to monitoring offshore financial centres for preventing money laundering and financing of terrorism besides strengthening public investment, managing the fiscal risks from public-private partnerships, adopting international standards and codes for data and financial and the fiscal management, correcting weaknesses identified under the joint IMF-World Bank financial sector assessment programme, and carrying out debt sustainability analysis. Most of the technical assistance is provided free of charge. Technical assistance is made available on request by the member country to the IMF, irrespective of the mode of delivery. For the technical assistance needs of developing members, the Regional Technical Assistance Centre (RTAC) was first established in fiscal 1993 in the Pacific to serve fifteen Island nations. The idea behind RTAC was to provide technical assistance to small Island economies, as individual assistance providers, including the IMF, were hard-pressed to meet these countries’ request. Up to fiscal 2008, there were six RTAC worldwide. The value of technical assistance, measured in persons-years, delivered through RTAC, has risen both in absolute terms and in proportion of total IMF technical assistance. 90% of the IMF’s technical assistance is provided to low-and lower middle-income countries to help them build the institutions and capacity needed to implement growth enhancing policies.

Since early 70s, the IMF is upgrading its support for developing the Under Developed Countries (UDCs) by providing lending through a variety of instruments like PRGF, Exogenous Shock Facility (ESF), HIPC, MDRI hence,

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50 Technical assistance is delivered through missions from headquarters, short-term expert assignments, long-term resident advisors or regional centres.
52 A short-term concessional assistance for low-income member countries to address a temporary balance of payment needs that is due to exogenous shock. This facility is available to those low-income members, which do not avail the PRGF arrangements.
resulting in widening the sphere of its assistance for increasing the living standards and reducing poverty. In the current set up, the IMF’s purpose is to ensure the stability of International Monetary System, which is essential for promoting sustainable economic growth, increasing the living standards and reducing poverty of member countries.

The focus of the study is to analyse the role of International Financial Institutions in the economic development of South Asian economies with special reference to Indian Economy. The South Asian region comprises of Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, Sri Lanka and India. The region has about 23% of the world’s population and 15% of the world’s arable land, but only about 2% of global Gross Domestic Product (GDP), 1.2% of world trade, and less than 1% of the world foreign investment.\textsuperscript{53} According to the World Bank, 70% of the South Asian population and about 75% of South Asia’s poor live in rural areas and most rely on agriculture for their livelihood. The South Asian region is tremendously diverse in terms of country size, economic and social development, geography, political system, language, and culture.\textsuperscript{54} In the fiscal 2008, South Asian region’s population was 1.54 billion and GDP was US$ 1524.7 billion. Per capita income in the region ranged from a low of US$ 405 in the Afghanistan, to a high of US$ 4760 in the Maldives. In late 70s and throughout 80s, the South Asian economies witnessed a perceptible trend towards the economic reforms in the form of deregulation, privatisation, financial sector reforms and export-oriented trade policy reforms. Sri Lanka was the leader in initiating economic reforms in fiscal 1977, followed by Bangladesh in fiscal 1980, Nepal in fiscal 1985, Pakistan in fiscal 1988, and India in fiscal 1991.

India is the largest economy in the South Asian region; it is the world’s fourth largest economy in terms of GDP at Purchasing Power Parity (PPP).\textsuperscript{55} In addition, India is the dominant political power in the region and the largest country covering around three-fourth of the land area of the subcontinent. Over the years, India has emerged as a global player in the Service sector. India has been the

\textsuperscript{53} Regional Cooperation Strategy and Program, South Asia (2006-08), ADB.Pg.01.
\textsuperscript{54} Regional Cooperation Strategy and Program, South Asia (2006-08), ADB. Pg.01.
\textsuperscript{55} Key Indicators for Asia and Pacific, 2010, ADB. Pg.154.
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founder member of major IFIs (World Bank, IMF, and ADB). In India, World Bank had sixty active projects with a net commitment of US$ 13.8 billion at the end of June 2008. The World Bank new Country Assistance Strategy (CAS)\(^\text{56}\) for India for 2009-2012 focuses on helping the country to fast-track development of much-needed infrastructure, and to support the seven poorest states to achieve higher standards of living for their people. The World Bank strategy envisages a total proposed lending program of US$14 billion for the period 2009-12.\(^\text{57}\) Its earlier Country Assistance Strategy for 2005-2008 focused on lending for infrastructure, human development, and improving rural livelihoods. The core focus of ADB’s strategy in India is poverty reduction through infrastructure-led growth.

1.4 Objectives and Importance of Study

The main objectives of the study are

- Examine the extent of assistance provided by IFIs in the South Asian region for the period 1981-2008,
- Analyse the nature of assistance provided by IFIs in the South Asian region for the period 1981-2008,
- Examine the sectoral pattern of assistance provided by IFIs in the South Asian region for the period 1981-2008,
- Analyse the role of IFIs in the economic development of the selected South Asian countries, individually as well as at the regional level,
- Analyse the role of IFIs in the Indian economy for the period 1981-2008,
- Suggest some policy implications for raising the assistance and making assistance more development oriented in the South Asian region, particularly in India.

From the review of literature, taken up in chapter two, some studies suggest that foreign capital/IFIs have positive role in the economic development of

\(^{56}\) World Bank prepares a CAS for each country to which it lends. CAS outlines Bank lending and technical assistance plans in a country over a 3 to the 5-year period.

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member countries; while other studies suggest that there is a negative role of foreign capital/IFIs in the economic development. Till date, no definite conclusion emerges regarding the role of foreign capital/IFIs in the economic development, in case of member countries. Further, though there have been a few studies on finding the role of IFIs in the economic development of member countries, yet none with an exclusive focus on the role of World Bank, ADB and IMF in the economic development of South Asian economies has come to notice. Secondly, to our knowledge, no work has been done on finding the nature, extent and pattern of external assistance provided by IFIs in the South Asian region for the period 1981-2008. Thus, the present study is undertaken.

1.5 Chapter Scheme

Chapter 1:- Introduction:- This chapter includes the Introduction of the study, its objectives, importance and chapter scheme, as well as a brief sketch of various IFIs such as WB Group, ADB and IMF.

Chapter 2:- Review of Literature:- Review of various studies with respect to the relationship between the foreign capital/IFIs’ and economic development has been presented in this chapter.

Chapter 3:- Data Source and Research Methodology:- Covers the details about the sources from where data has been collected and explanation of the methodology adopted for finding the role of IFIs in the economic development of South Asian economies.

Chapter 4:- Economic and Social profile of the South Asian economies:- Economic and social profile of the South Asian economies individually, as well as at the regional level has been covered in this chapter.

Chapter 5:- Role, Functions and Performance of International Financial Institutions in the South Asia:- The extent, nature and pattern of assistance operations of IFIs in the South Asian economies individually, as well as at the regional level are highlighted in this chapter.
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Chapter 6:- Role of International Financial Institutions in the Economic Development of South Asian Economies: A Longitudinal Analysis:- The role of IFIs in the economic development of South Asian region is examined statistically in this chapter for the period 1981 to 2008.


Chapter 8:- Summary, main conclusions, and policy implications:- Main findings of the study and some policy implications emerging from the empirical analysis are specified in this chapter.