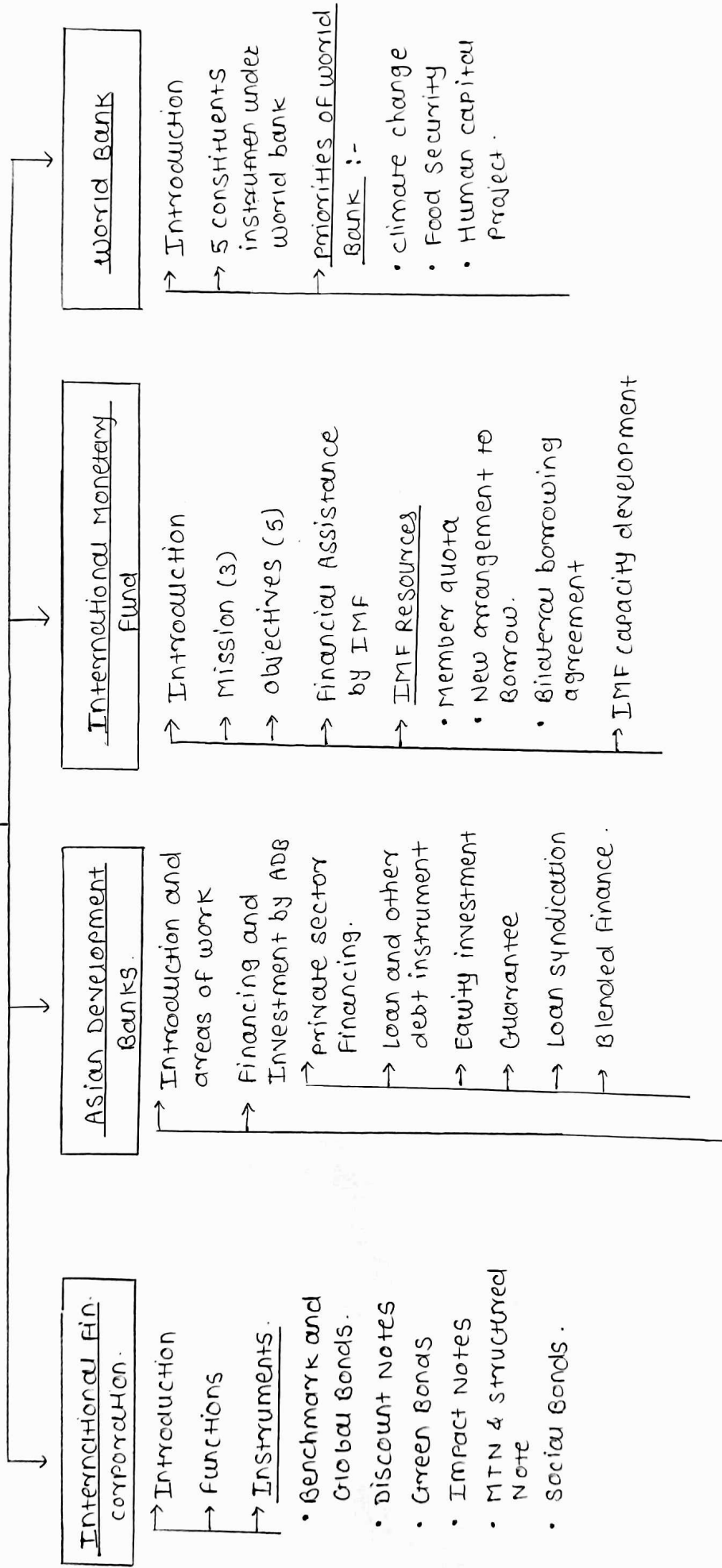


Ch-15 Foreign Funding - Institutions - synopsis



①

International Finance Corporation

①

→ Introduction.

- * IFC was founded in 1956
- * IFC has expanded its horizon in more than 100 countries coining the term "emerging markets"

- IFC is a sister organization of the world bank and member of the world bank group. Focused exclusively on private sector in developing countries
- World Bank Group has two goals to achieve by 2030
 - End extreme poverty and
 - Promote shared prosperity in every country.
- IFC offers investment, advisory and asset mgmt services to encourage private sector development in developing countries.
- IFC helps the countries to develop their private sector in variety of ways.
 - Investing in companies.
 - Mobilizing capital
 - Advising businesses and governments
- originally it was more financially integrated with world bank group, but after it was established separately and eventually became financially autonomous entity.

→ Functions of IFC.

- provide wide range of investment and advisory services
- offer innovative financial products to private sectors projects in developing countries.
- It include also provides advisory services. It provide a mix of financing & advisory services.

→ Funding by IFC

- IFC's first investment came in September 1957 it was \$ 2 million. 15 yr loan to help the local affiliate of German electrical equipment manuf. Siemens build Brazil's first integrated assembly plant to supply local utilities.
- IFC is an active issuer of ESG bonds also known as socially responsible investments
- There are some examples of IFC Funding Program
 - Benchmark and Global Bonds.
 - Discount Notes. - Generally short term
 - MNTs & structured Notes - Medium term loan
 - Green Bonds
 - Social Bonds
 - Impact Bonds. → IFC has provide more than \$ 28 billion in long term financing and raised over \$ 22.3 billion in core mobil

②

Asian Development Banks

Introduction.

- ADB was conceived in early 1960s as fin. institution.
- Main purpose is economic growth and co-operation in one of the poorest regions in the world.
- ADB is composed of 68 mem 49 of which are from Asia and Pacific region and 19 outside.
[Now - 69 M. 49 in Asia and 20 outside]

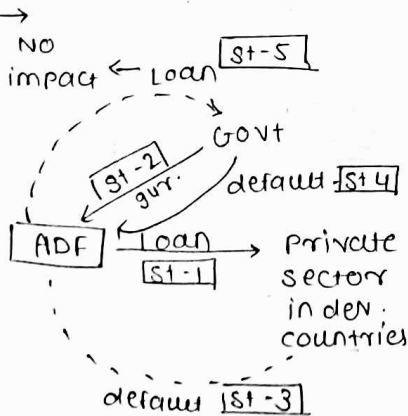
Area of work.

- ADB is committed to achieving a prosperous and sustainable Asia and Pacific, while sustaining its efforts to eradicate extreme poverty.
- ADB provides -
 - Loan
 - Technical Assistance
 - Grants

Financing and Investment by ADB

Private sector financing.

- ADB undertake non sovereign operations to provide financing to eligible recipient in developing member countries.

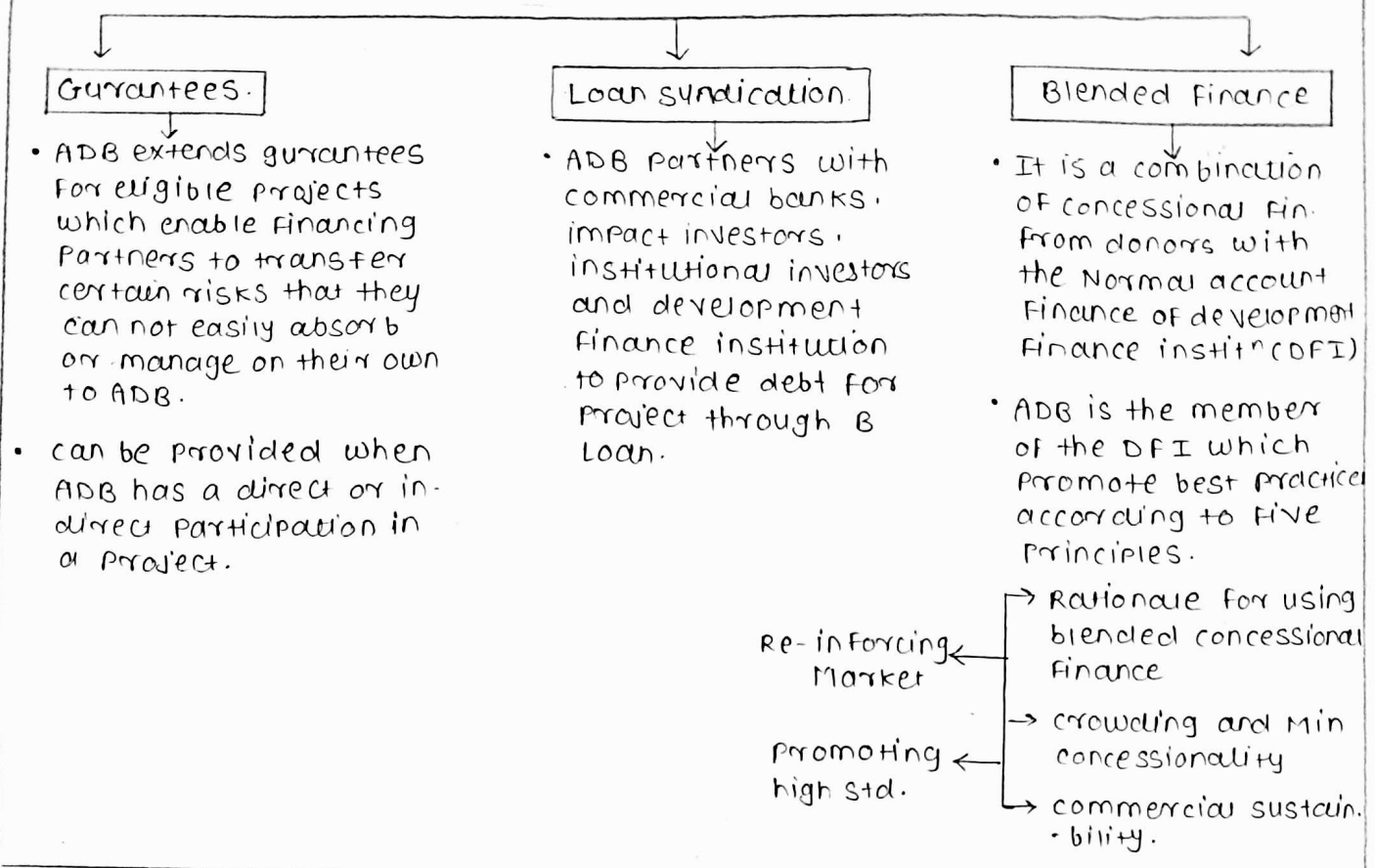


Loans and other Debt Instrument

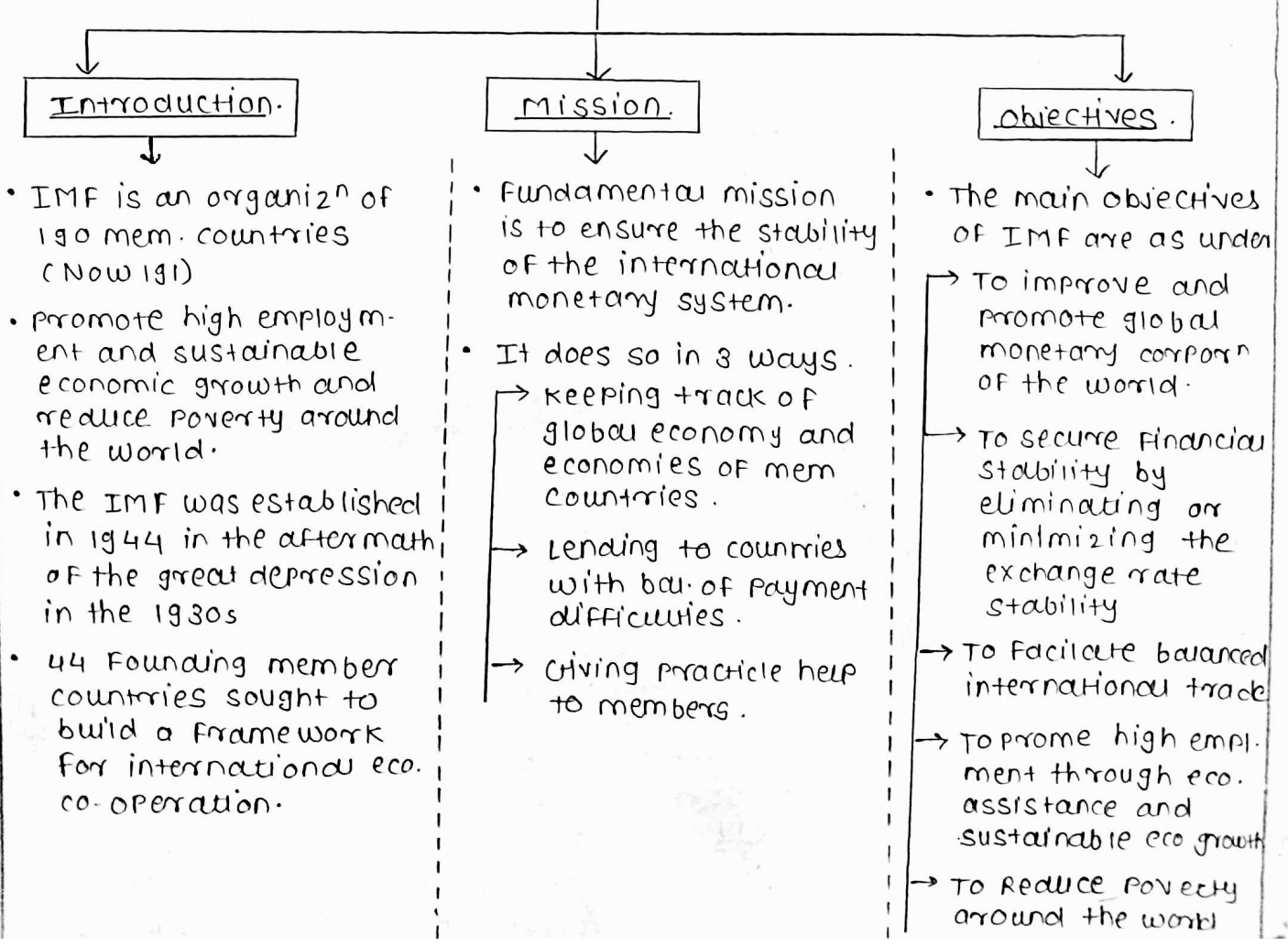
- ADB offers hard currency loans as well as local currency loans.
- Rates :-
 - In pricing its loan, ADB considers prevailing market rates
 - Also provide floating rate loans at a spread above secured overnight financing rate
 - Also offers fixed rate loans.
- Fees :-
 - ADB charges a once only front-end fee as well as ongoing commitment fees on the undischursed bal.
 - also charge fees to cover upfront cost
- Security :- seek security appropriate for loan.

Equity investment

- ADB may invest directly in an enterprise
- offers financing thr. equity investment incl. direct equity invt. in the form of common shares, preferred stock or convertibles
- ADB does not seek a controlling int in invested co. and will not assume any mgt responsibility
- Maintain regular contact with co. mgt & require periodic report on progress of project
- once the objective of invt is achieved ADB will divest its share at fair market price
- ADB may also invest in private equity fund.



International Monetary Fund.



Financial Assistance by IMF

- Aims to give countries breathing room to implement adjustment policies which will restore stable conditions for stable economy & sustainable growth.
- The causes of crises are varied and complex. They can be domestic, external or both.

→ Domestic Factors

- include inappropriate fiscal and monetary policies which can lead to large current account & fiscal deficits and high public debt levels.
- political instability and weak institutions also can trigger crises.

→ External Factors -

- includes shock ranging from natural disaster to large swings in commodity prices
- sudden changes in market sentiment can result capital flow volatility. eg - COVID 19 pandemic

→ other crises.

- Bal. of Payment Problems
- Fin. crises stem from illiquid or insolvent fin. institution.
- Fiscal crises are caused by excessive deficits & debt

IMF Resources.

→ Member quotas :-

- quotas are the IMF's main source of financing
- Each member of the IMF is assigned a quota based broadly on its relative position in the world economy.
- At present, India has quota of 2.75% of total quota at IMF with 2.63% of voting rights.

→ New arrangement to Borrow -

- constitutes a second line of defense.
- Activation requires support from 85% of participants eligible to vote.

→ Bilateral borrowing arrangements -

- serve as a third line of defense after quotas and the NAB.
- Activation of arrangement requires support of 85% of creditor's eligible to vote.

Capacity Development

- IMF provide technical assistance & training
- These capacity development help countries achieve their growth and development objectives.
- It is one of the three core functions of the IMF and accounts for around a third of spending.

World Bank

Introduction

- It is an international organization affiliated with the United Nations
- Headquartered in Washington, D.C.
- It also provide tech. assistance and policy advice & supervises on behalf of international orgs.
- It plays a central role in reverse economic policy and reforming public institutions in developing countries and defining global macro economic agenda.

Five constituent institutions under world bank

- The International Bank for Reconstruction & Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- The Multilateral Investment Guarantee Agency (MIGA)
- The International Centre for Settlement of Investment Disputes (ICSID)

Priorities of World Bank Group

- climate change
 - world Bank group is the biggest multilateral funder of climate invt. in developing countries
 - Help to reduce poverty and inequality.
- Food security
 - Build Food system that can feed everyone, everywhere, every day by improving Food Security
 - Promoting Nutrition sensitive agriculture and improving food safety
- Human capital project
 - It consist of knowledge skills and health that people invest in and accumulated throughout their lives
 - Investing in people thr. Nutrition, health, quality

- education, jobs and skills helps develop human capital, and this is key to ending extreme poverty.
- AS of Oct. 2022, 86 countries at all income levels are working with the world bank group.