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International Financial Institutions and Peripheral Formation: A Study of World Bank and International Monetary Fund

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Abstract

International financial institution (IFIS) was established by more than one country to help in addressing challenges or crises of development at the same time to assist in planning and structuring economic development, investment imbalances, balance of payments rates to real economy, issues relating to global financial stability. The founders and shareholders of these IFIS are generally national or independent government, although other international organizations feature as shareholder. the study adopts qualitative research method (secondary data by reviewing available literature, journals, published data, reports etc. Dependency theory was used to guide the study. The study discovered that both IMF and world bank never play their role on a scale commensurate to the problems on ground especially in the peripheral formations, their efforts are hampered by concerns relating to the influences of such countries like France and United State of America. Other identified concerns are the legitimacy and effectiveness as well as conditionally attached.

Keywords: *International financial institutions, peripheral formations, Dependency theory.*

INTRODUCTION

International financial institutions (IFIs) are organisations that provide financial assistance and expert advice for initiatives aimed at encouraging economic and social development, especially in less developed countries. They also work to foster international economic cooperation and stability. IFIs include the International Monetary Fund (IMF) and five multilateral development banks: the World Bank Group, the Africa Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development.

Donna (2015) defines international financial institutions as entities formed under international law to provide grants, loans, and technical support for social and economic development in a certain country or region. He noted that the World Bank and IMF were established as International Financial Institutions (IFIs) at the end of WWII. They were founded to help rebuild war-torn economies and to provide order to the international monetary system, exchange rates, and payment networks. Their duties have expanded over time, and today they give access to development aid, analyse global economies, and promote free trade policies. The IFIs' membership is limited to sovereign independent countries as owner-members and shareholders, while other international organisations and organisations may also be shareholders.

The IMF's mandate is to regulate the international monetary system and monitor its members' financial and economic policies. It tracks economic progress on a national, regional, and global scale. The IMF also provides advice and training to low and middle-income countries on how to improve institutions and develop suitable macroeconomic, financial, and structural policies. The fund also provides loans to countries that are having difficulty fulfilling their international payments and cannot otherwise obtain funding on reasonable conditions.

On the other hand, the World Bank focuses on the poorest countries, offering low-interest loans, interest-free credit, and grants for investments in education, health, public administration, infrastructure, financial and private sector development, agriculture, the environment, and natural resource management.

As a result, the study concentrates solely on the Bretton Woods institutions, specifically the International Monetary Fund and the World Bank, as IFIs to be discussed. The paper also examines the role of countries such as the United States of America, France, and other European countries as key players and shareholders in IFIs, as well as the challenges faced by peripheral formations in their attempt to access loans/aid for social and economic development in their respective countries. To deal with these issues, the paper is divided into four sections. The first section introduces the paper; the second section discusses the International Monetary Fund and the World Bank. The final section focuses on the evaluation of these IFIs and their relationships with peripheral formations. The final section consisted of the conclusion and prognosis.

Overview of International Monetary Fund and the World Bank

International Monetary Fund (IMF)

The International Monetary Fund is a forum for one hundred and eighty-nine (189) governments around the world. It was founded in 1945 to promote global monetary cooperation, ensure financial stability, enable international trade, promote high employment and long-term economic growth, and alleviate poverty worldwide (IMF, 2018). This institution's primary functions include ensuring the stability of the international monetary system, which consists of exchange rates and international payments that allow nations and their inhabitants to transact with one another.

The fund's mandate was amended in 2020 to include all macroeconomic and financial sector challenges affecting global stability. As of March 13, 2015, the IMF has US$327 billion (2020). The IMF performs regulatory, financial, and consultative functions. The regulatory function includes price stability, the removal of economic bottlenecks, the removal of balance-of-payments obstacles, and so on. The financial function includes the provision of facilities to rectify balances of payments, among other things. Finally, the IMF makes recommendations to achieve economic growth and development through consultation functions (IMF, 2020). As stated in Article One of the original agreements.

The primary goal of economic policy is to promote international monetary cooperation by creating a permanent institution for consultation and collaboration on monetary issues. Additionally, it aims to facilitate the expansion and balanced growth of international trade, resulting in high levels of employment and real income, as well as the development of productive resources among all members. To promote exchange stability, maintain orderly arrangements among members, and prevent competitive devaluation. The goal is to build a multilateral payment system for current transactions among members and remove foreign exchange limitations that hinder global trade growth. The IMF aims to provide member governments with temporary access to the Fund's resources, allowing them to correct imbalances in their balance of payments without harming national or international prosperity (IMF, 2022).

Board of Governors

Each member country picks two governors, one as a principal and the other as an alternate governor. The board normally meets once a year. It appoints executive directors and oversees the increase in quota allocation of foreign reserve assets, the admission of new members, and the revision of agreements. There are two committees that advise the Board: The International Monetary and Financial Committee and the Development Committee, which have 24 and 25 members respectively.

These committees strive to facilitate global liquidity transfers to developing countries and promote developmental initiatives (IMF, 2022).

The Executive Board: The executive board consists of 24 executive members. Large economies appoint their own executive director (ED), while underdeveloped countries appoint ED collectively. The United States of America, Japan, Germany, France, the United Kingdom, China, the Russian Federation, and Saudi Arabia each appoint their own ED, while the remaining 16 directors represent Constituencies ranging from four to twenty-two countries. The board membership and constituency are planned to be reviewed every eight years (IMF, 2022).

Managing Director: The Managing Director is the IMF's leader and chairs the executive board. He is joined by four deputy managing directors. Brazil, Russia, India, China, and South Africa (BRICS) are speaking out against the nomination of a Europe Origin-supported US managing director.

The World Bank

The World Bank was created in 1945 at the same international conference as the IMF, and its first focus was on rebuilding the damage and ruins caused by World War II. As those countries recovered and rebuilt, the Bank shifted its principal focus to the second job envisioned for it: economic growth of the world's non-industrialized countries with the objective of pulling the globe out of poverty (World Bank, 2020). The World Bank is structured similarly to a cooperative, with shareholders representing the same countries that make up the IMF's membership. The shareholding nations are represented by a board of governors, the Bank's highest decision-making body. Typically, governors are member nations' finance or development ministers. The Bank's highest decision-making body consists of 24 executive directors, who meet once a year. The Governors formed a ministerial-level development committee to promote intergovernmental consensus on development issues and advise the Boards of Governors of the Bank and IMF on necessary financial resources for development. The World Bank, headquartered in Washington, DC, is comprised of five financial institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Financial Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Each institution serves a unique but vital part in the group's corporate aim of eliminating global poverty and improving living conditions in underdeveloped countries. They work together to provide low-interest loans, interest-free credits, and grants to governments and the business sector in developing countries for investments in education, health, infrastructure, communications, and other areas, as well as services to support those investments (World Bank, 2020).

International Financial Institutions and Peripheral Formations

Driscoll (1996) defined the two most significant international financial organizations, the World Bank and the International Monetary Fund (IMF), as twin pillars that underpin the structure of the global economic and financial system. The World Bank and the IMF's original goals were to promote international monetary cooperation, assist in the establishment of a multilateral payment system, make resources available to members experiencing balance-of-payments difficulties, and facilitate the expansion and balanced growth of global trade. The IFIs are institutions of 189 countries with the primary responsibility of promoting global economic stability. In addition to the aforementioned goals, the IMF and the World Bank seek to promote high employment and sustainable economic growth, as well as to reduce poverty around the world (IMF, 2022).

To fulfill their global role, the IMF has three (3) broad operating mechanisms: surveillance of financial and monetary conditions in member countries and the global economy, financial assistance to help countries overcome major balance of payment problems, and technical assistance and advisory services to member countries (Nelson & Weiss, 2015).

Despite the aforesaid structure and functioning, several of these member countries continue to file broad complaints and charges against the IFIs, pushing for substantial reforms to assure fair opportunity for its members (Webb: 2006). According to the G-24 policy brief, proposals for IFI reform, particularly the IMF, include all aspects of the Fund, from its surveillance role to its role in debt management and emergency loans, as well as the nature of its advice and governance. Accusations include non-inclusiveness in IMF decision-making, despite the fact that several emerging market economies (EMEDC), including BRICS nations, are requesting more fair participation commensurate with their current economic strength (Nelson & Weiss, 2018). The role of the United States in IFIs, with a focus on the World Bank and the IMF, describes the extraordinary influence of the United States on these institutions as a result of both formal means, such as US financial contributions, and informal practices and conventions that have evolved over time, with the informal mechanisms of influence frequently outweighing the formal ones. However, some say that, despite the weight of US influence, viewing the World Bank and IMF as simple instruments of US influence is misleading. The international Bank and IMF are governed by the United States and a few other international powers, which aim to generalize policies that are detrimental to the majority of the world's population. The World Bank and the IMF have provided systematic loans to states to influence their policies. External debt has continued to be used as a tool for subordinating borrowers; since their inception, the IMF and World Bank have violated international human rights treaties and have no qualms about assisting dictatorships.

Ngaire (2019) stated that, since its inception, the World Bank's policies have been shaped by the context of the Cold War and US interests. For example, the president of the World Bank has always been a US citizen chosen by the US government. The members of the Board of Governors merely ratify the candidate proposed by the United States. This privilege is not represented in the Bank's statues. Although the statues enable it, no governor has ever attempted to offer a candidate from another country, or even an American candidate, other than the one chosen by the US government.

Another influence of the United States is its right of veto at the World Bank, which has existed since its inception. The United States had 35.07 percent of the voting rights; with the last modification of voting rights in 2013, they have 15.85 percent; and since 1947, the majority required to amend the laws was 80 percent (held by at least 60 percent of the members), indicating the US right to veto. The wave of newly independent states in the South increased the number of World Bank Group members, eventually reducing the importance of the US vote. However, the United States took sure to preserve its veto power. However, in 1966, it only had 25.50 percent of voting rights, which was adequate for the purpose (Bassey, 2017).

When the situation became untenable for the United States in 1987, the concept of qualified majority was changed to its advantage. In reality, that year, Japan won a large boost in its voting rights with the US, putting it ahead of Germany and the United Kingdom. To concede to this rise by their Japanese allies, the US agreed to reduce its voting rights in exchange for raising the needed majority to 85 percent. In this way, it offered Japan complete pleasure while preserving its power to Veto (Bassey, 2017).

Ngaire (2019) observed that, United States has a great influence concerning sectorial loans. For instance, from the 1970s, the US intentionally used its influence in an attempt to convince the Bank not to grant loans which facilitated the production of goods that would compete with US products. The US opposed the production of palm oil, citrus fruits, as well as sugar. In 1987, the US made the Bank to drastically reduce loans granted to the steel manufacturing industry in India and Pakistan. The US used its veto power and blocked similar loan for steel industry in Chile, Brazil, and so on. Similarly, US actively influenced the Bank in its policy on oil sector, US was in support of loans for oil drilling but opposed loans for refining.

Driscoll, 1996) made an estimate of financial advantage US enjoyed thanks to the presence of the World Bank in its influence, that from 1947 to 1992, US citizens possessing bonds issued by the Bank amounted to 20.2 billion dollars for the said period. Similarly, operating expenditures of the Bank on US territory represent 11 billion dollars for the same period.

Iyeli (2017) observed that IMF's legitimacy has been brought into questions. It is run by an executive board composed of 24 directors who are appointed or elected by member countries, or by groups of countries. The Managing Director has traditionally been a European from France. There have been calls for a more open, transparent and merit-based selection process to capture the confidence of emerging nations. The voting structure of the IMF has also been criticized. Voice and influence are distributed largely according to economic weight and financial contribution; thus, peripheral formations have little influence, even though they are greatly affected by the IMF's work. 5 of the 24 directors are appointed by the members who constitute the five largest shareholders of the IMF (the United States, Japan, Germany, France & United Kingdom). Collectively, the five directors have 38.39 of the total votes.

Iyeli (2017) further explained that other economics are grouped within 19 constituencies each represented by one director. For instance, 20 Africa countries are represented by a single director and have a combined voting share of merely 3.01 percent. Six South American Countries are represented by a single director and have a combined voting share of just 1.96 percent. The united state has 16.77 percent of the vote and veto power over special categories of important decisions.

Conclusion

International financial organizations, particularly the IMF and the World Bank, have a strong mandate from their shareholders to provide analytical research and effective finance to address global concerns like the ones mentioned before. IFIs clearly have a comparative edge in mobilizing resources and directing them toward projects that can successfully address these concerns. Indeed, IFIs have been playing this function for many years, but not on a scale commensurate with the challenges on the ground, particularly in outlying formations. Their efforts are impeded by concerns about the influence of some countries, particularly the United States of America and France. Other areas of concern include the validity and effectiveness, as well as the terms tied to getting a loan or grant. Both the IMF and the World Bank share the goal of boosting living standards in their member countries. Their approaches to this goal are complementary, with the IMF focusing on macroeconomic concerns and the World Bank on long-term economic growth and poverty reduction.

Prognosis

1. According to Bassey (2017), granting third-world countries access to credit for project development and industrialization would require a significant overhaul of the current international financial system. This would involve replacing national reserve currencies with an international currency.
2. Analysts recommend expanding the IMF's mandate beyond balance of payments rates to include real economy issues such as savings-investment imbalances and global financial stability. Similarly, greater reforms are needed to make the World Bank a more respectable and inclusive institution that can command the trust of peripheral groupings. After all, the poorest countries are the most affected by its activities and in need of its assistance. As additional countries become active participants, ongoing coordination is required to ensure rapid decision-making and informed action.

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