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The Role of the International Financial Institutions in Addressing Global Issues

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Addressing the many global issues discussed in this volume will require international cooperation in the economic as well as the political sphere. The key global institution mobilizing political cooperation among nations on these issues is the United Nations (UN) system, discussed in chapter 19. Mobilization of economic and financial cooperation, including issues related to the transfer of resources, is one of the key responsibilities of the international financial institutions (IFIs). Together, the UN and IFIs make up the bulk of the global governance system in place today. This chapter provides an overview of IFIs, the role they play in addressing global issues, and the main current proposals to improve their effectiveness.

International Financial Institutions: An Overview

IFIs are institutions that provide financial support and professional advice for economic and social development activities in developing countries and promote international economic cooperation and stability. The term

The information for this chapter is based mostly on publicly available materials on the Web sites of the International Monetary Fund, the World Bank, and the regional development banks. Information about the global programs is based on the Annual Global Monitoring Reports. These contributions are gratefully acknowledged.

international financial institution typically refers to the International Monetary Fund (IMF) and the five multilateral development banks (MDBs): the World Bank Group, the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development. The last four of these each focus on a single world region and hence are often called regional development banks. IMF and the World Bank, in contrast, are global in their scope; they are also specialized agencies in the UN system but are governed independently of it.

All IFIs admit only sovereign countries as owner-members, but all are characterized by a broad country membership, including both borrowing developing countries and developed donor countries; membership in the regional development banks is not limited to countries from the region but includes countries from around the world. Each IFI has its own independent legal and operational status, but because a considerable number of countries have membership in several IFIs, a high level of cooperation is maintained among them.

Broadly speaking, IMF provides temporary financial assistance to member countries to help ease balance of payments adjustment. MDBs provide financing for development to developing countries through the following:

- Long-term loans (with maturities of up to 20 years) based on market interest rates. To obtain the financial resources for these loans, MDBs borrow on the international capital markets and re-lend to borrowing governments in developing countries.
- Very-long-term loans (often termed credits, with maturities of 30 to 40 years) at interest rates well below market rates. These are funded through direct contributions by governments in the donor countries.
- Grant financing is also offered by some MDBs, mostly for technical assistance, advisory services, or project preparation.

All IFIs are active in supporting programs that are global in scope, in addition to their primary role of financing and providing technical assistance to programs at the country level. Their global activities are discussed later in the chapter.

Several other publicly owned international banks and funds also lend to developing countries, and these are often grouped together as other multilateral financial institutions rather than as IFIs. They usually have a relatively narrow ownership or membership structure or focus on particular sectors or activities. Among these are the European Investment Bank, the International Fund for Agricultural Development, the Islamic Development Bank, the Nordic Development Fund and the Nordic Investment Bank, and the Organization of the Petroleum Exporting Countries Fund for International Development.

A number of subregional banks established for development purposes are also classified as multilateral banks rather than as IFIs, as they are owned by a group of countries (typically borrowers and not donors). Among these are the Corporación Andina de Fomento (Andean Development Corporation), the Caribbean Development Bank, the Central American Bank for Economic Integration, the East African Development Bank, and the West African Development Bank.

Some other international institutions, such as the Bank for International Settlements, the Financial Stability Forum, and the Basel Committee, also perform important roles in the international financial system but are not involved in lending. These, too, are not counted among IFIs and are not discussed in this chapter, which discusses IMF and MDBs only.[1]

The International Monetary Fund

IMF was established by international treaty in 1945 as the central institution of the international monetary system—the system of currency trading and exchange rates that enables business to take place between countries with different currencies. IMF aims to prevent crises in the system by encouraging countries to adopt sound economic policies and monitoring their adherence to such policies; it is also—as its name suggests—a fund that can be tapped by members needing temporary financing to address balance of payments problems.

More specifically, IMF's statutory purposes include promoting the balanced expansion of world trade, the stability of exchange rates, the avoidance of competitive currency devaluations, and the orderly correction of balance of payments problems. To serve these purposes, IMF engages in three types of activities: (a) it monitors economic and financial developments and policies, both in its member countries and at the global level, and offers policy advice to its members based on its more than 50 years of experience; (b) it lends to member countries experiencing balance of payments problems, not just to provide temporary financing but also to support economic adjustment and reforms aimed at correcting the underlying problems; and (c) it provides the governments and central banks of its member countries with technical assistance and training in its areas of expertise.

Headquartered in Washington, D.C., IMF is governed by its almost-global membership of 184 countries. IMF is also the principal forum for discussing not only national economic policies in a global context but also issues important to the stability of the international monetary and financial system. These include countries' choice of exchange rate arrangements, the risks of destabilizing international capital flows, and the design of internationally recognized standards and codes for policies and institutions.

The World Bank Group

Founded in 1945 at the same international conference as IMF, the World Bank at first was involved mainly in the reconstruction of countries devastated by World War II. As those countries recovered, the Bank turned its primary focus to the second task envisioned for it, namely, the economic development of the world's nonindustrialized countries, with the goal of lifting the world out of poverty.

The World Bank is organized much like a cooperative, whose shareholders are the same 184 countries that make up IMF's membership. The shareholding countries are represented by a Board of Governors, which is the Bank's ultimate policy making body. As a rule, the governors are member countries' ministers of finance or of development. Because they meet only annually, the governors delegate much of the Bank's decision making to 24 executive directors, who work on site at the Bank. The governors have also established a Development Committee at the ministerial level. The committee's task is to facilitate intergovernmental consensus building on development issues, as well as to advise the boards of governors of both the Bank and the IMF on critical development issues and on the financial resources required to promote development.

The World Bank Group, which is headquartered in Washington, D.C., is made up of five institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Each institution plays a different but important role in the group's corporate mission of reducing global poverty and improving living standards in the developing world. Together, they provide low-interest loans, interest-free credits, and grants to governments and the private sector in developing countries for investments in education, health, infrastructure, communications, and many other purposes, as well as services in support of those investments.

IBRD focuses on middle-income countries and creditworthy low-income countries, whereas IDA focuses on the poorest countries in the world. IBRD lends only to governments, financing these loans primarily by selling triple-A-rated bonds in the world's financial markets. Although IBRD earns a small margin on this lending, the greater proportion of its income comes from lending out its own capital. This capital consists of reserves built up over the years and money paid in from the World Bank's shareholders. This income also pays the World Bank's operating expenses, and part of it has been contributed to IDA and debt relief.

IDA is the world's largest source of interest-free loans and grant assistance to the governments of the poorest countries. Its funds are replenished every 3 years by its 40 donor country members. Additional funds are generated through repayments of principal on its 35- to 40-year no-interest loans; these funds are then available for re-lending. IDA lending amounts vary from year to year but generally account for about 40 percent of total World Bank Group lending.

IFC focuses on financing private sector projects, in which it may take an equity stake in addition to lending. MIGA promotes foreign direct investment in developing countries by insuring investors against political or noncommercial risks in those countries. ICSID provides a forum for mediating disputes between investors and governments and advises governments in their efforts to attract investment.

The Inter-American Development Bank

The Inter-American Development Bank (IDB) was established as a development institution in 1959, which makes it the oldest of the regional development banks. It is owned by its 47 member countries, which include 26 Latin American and Caribbean states, the United States, Canada, 16 European countries, Israel, the Republic of Korea, and Japan. It is headquartered in Washington, D.C. Within its region, IDB is the main source of multilateral financing for economic, social, and institutional development projects in both the public and the private sectors, as well as for trade and regional integration programs.

IDB's main goals are to promote poverty reduction and social equity, as well as environmentally sustainable economic growth. To attain these goals, IDB focuses its work on four priority areas:

- Fostering competitiveness through support for policies and programs that increase a country's potential for development in an open global economy
- Modernizing the state by strengthening the efficiency and transparency of public institutions

- Investing in social programs that expand opportunities for the poor
- Promoting regional economic integration by forging links among countries to develop larger markets for their goods and services.

IDB supports regional initiatives by producing information and knowledge for policy discussion and funding technical cooperation to strengthen regional integration. It provides technical support to governments on trade and integration issues and conducts public outreach activities to promote such integration.

The Asian Development Bank

The Asian Development Bank (ADB) is owned by its 65 members, 47 from the region and 18 from other parts of the globe. Its highest policy making body is its Board of Governors, which meets annually and consists of one representative from each member. The governors elect the 12 members of the Board of Directors. ADB was founded in 1966 and is headquartered in Manila.

ADB's vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their citizens through policy dialogue, loans, technical assistance, grants, guarantees, and equity investments. ADB's operations are financed by bonds, recycled repayments on its loans, and contributions from members. About 70 percent of its cumulative lending comes from its ordinary capital resources, but ADB also provides loans from several special funds. Among these is the Asian Development Fund, which provides concessional loans to the least-developed member countries. ADB also manages several trust funds and channels grants provided by bilateral donors to their ultimate recipients.

The African Development Bank

The African Development Bank (AfDB) is engaged in promoting the economic development and social progress of its shareholder countries in Africa. Established in 1964, with headquarters in Abidjan, Cote d'Ivoire (but temporarily located in Tunis), AfDB is owned by 53 African countries and by 24 countries in the Americas, Europe, and Asia. AfDB's principal functions include the following:

- Making loans and equity investments for the economic and social advancement of the regional member countries
- Providing technical assistance for the preparation and execution of development projects and programs
- Promoting the investment of public and private capital for development purposes

- Responding to requests for assistance in coordinating the development policies and plans of the regional member countries.

In its operations, AfDB is also required to give special attention to national and multinational projects and programs that promote regional integration.

AfDB gets its financial resources from subscribed capital, reserves, funds raised through borrowings, and accumulated net income. Its capital is subscribed such that the regional member countries hold two-thirds of the total and the nonregional members one-third. AfDB's highest policy making body is its Board of Governors, which consists of one governor for each member country. The Board of Governors delegates many of its powers to the Board of Directors, which is composed of 18 executive directors: 12 representing the regional members and 6 representing the nonregional members. Under AfDB's founding agreement, its president must be a national of one of the regional members.

AfDB lends on a nonconcessional basis at a variable lending rate calculated on the basis of the cost of its borrowing. The other terms include a commitment charge of 1 percent and maturities of up to 20 years, including a 5-year grace period. AfDB also provides development finance on concessional terms to its low-income member countries that are unable to borrow on the above nonconcessional terms. Money for such loans comes from the 24 nonregional shareholders in the form of grant contributions.

The European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) was established in 1991, when communism was crumbling in central and eastern Europe and these countries needed support to nurture a new private sector in a democratic environment. EBRD's charter is unique among MDBs in that it stipulates that EBRD may work only in countries that are committed to democratic principles.

EBRD, which is headquartered in London, is owned by 60 countries and 2 intergovernmental institutions, the European Union and the European Investment Bank. EBRD's share capital is provided by its members. EBRD does not directly use shareholders' capital to finance its loans. Instead, its triple-A creditworthiness rating enables it to borrow funds in the international capital markets by issuing bonds and other debt instruments at highly favorable market rates. Although its shareholders are in the public sector, EBRD invests mainly in private enterprises, usually together with commercial partners.

Today, EBRD uses its investment tools to help build market economies and democracies in 27 countries from central Europe to central Asia. It provides project financing for banks, industries, and individual businesses, in the form of both new ventures and investments in existing companies. It also works with publicly owned companies to support privatization, restructuring of state-owned firms, and improvements in municipal services. EBRD uses its close relationship with governments in the region to promote policies that will bolster the business environment.

International Financial Institutions and Global and Regional Issues

All IFIs have two major product lines that help address global and regional issues: their country programs and their global and regional programs.[2] By definition, the country programs support the development strategies and investment projects of individual countries, but taken together, these programs contribute to advancing the well-being of the country's region and of the world as a whole. The global and regional programs provide financial resources that address global and regional issues directly and increase the supply of global public goods. They also promote international cooperation. A good overview of the activities of IFIs at the country, regional, and global levels can be found in the annual *Global Monitoring Report* series jointly produced since 2004 by the staff members of the World Bank and IMF. Although the primary purpose of these reports is to assess the implementation of policies and actions aimed at achieving the Millennium Development Goals, each report also contains a chapter on IFIs, which summarizes their contributions on global issues through their global and regional programs. The rest of this section draws heavily on the 2004 and 2005 reports.

The International Monetary Fund

IMF plays a central role in addressing those global issues related to promoting a stable and open global economic and financial environment (see chapter 3 of this volume). First, it does so through its surveillance of the economic policies of those countries that, because of their size or their critical role in international trade or finance, are important to the health of the global economic system. The consultations with industrial countries that IMF conducts under Article IV of its Articles of Agreement are a vehicle for promoting appropriate policies, such as curbing domestic imbalances that may pose risks for the global economy. IMF is also becoming increasingly active in multilateral surveillance, highlighting both macroeconomic and financial risks as they emerge at the global level. IMF is planning to make its surveillance more effective through more-incisive analysis of specific weaknesses and distortions in the global financial system that raise the risk of crisis or contagion or hinder adjustment to globalization. It will also promote international dialogue within the international community on multilateral actions necessary to ensure global financial stability.

Second, IMF provides financial support to member countries experiencing protracted balance of payments difficulties. Such lending helps stabilize the affected economy while also safeguarding global financial stability. Stabilization loans are extended at market interest rates for high- and middle-income countries and on concessional terms for low-income countries.

The World Bank

A critical part of the World Bank's work is devoted to analysis and advocacy in the global arena, especially with respect to the policies and actions of developed countries on trade, aid, and debt relief, given their importance in addressing these global issues and reducing poverty. The Bank's support for global programs began three decades ago, with the establishment of the Consultative Group on International Agricultural Research (CGIAR), for which the Bank serves as both convener and donor, as well as a lender to developing countries for complementary activities. CGIAR, which brings together leading agricultural research institutes from around the world, has had some notable successes in creating global public goods such as the high-yielding varieties of crops that are the backbone of the Green Revolution.

As the only global institution among MDBs, the World Bank has increased its support for global programs rapidly in recent years; 70 different programs involving many of the global issues covered in this book are now under way. A major expansion of the Bank's work on global issues began in the late 1990s, when the Bank increased its orientation toward global partnerships and associated program support activities. This change in policy reflected the Bank's recognition of the rapid pace of globalization and the sharply increased attention to global policy issues within the development community. Many of these programs feature partnerships focused on the delivery of global and regional public goods, including the provision of seed money. In September 2000, the Development Committee endorsed the Bank's priorities in supporting global public goods; those priorities focus on five areas: public health, protection of the global commons, financial stability, trade, and knowledge.

The Regional Development Banks

The regional development banks are also actively involved in global and regional programs covering financial stability, trade, the environment, post-conflict assistance, and knowledge; all but EBRD are also involved in the control of infectious diseases. In many cases, the regional banks' focus is on provision of regional public goods (RPGs) or on regional aspects of global public goods; in this regard, they complement the World Bank's global and regional efforts. The regional banks are also involved in helping their regional members build capacity to meet members' obligations under recent global agreements.

IDB has five priority areas in the provision of regional and global public goods: financial sector assessments, regional integration, curbing of infectious diseases, promotion of environmental services, and support for research in agriculture and regional policy dialogue. IDB has prepared a new policy framework for its support for RPGs, including a financing facility geared to providing grant financing for what it calls *early-stage RPGs,* where the greatest need is for dialogue among countries; *later-stage RPGS,* where more institutional resources to manage the emerging program are needed; and the initial stages of *club RPGs,* which will likely be financially self-sustaining once they are up and running.

For AfDB, critical regional issues include postconflict assistance and public health measures, especially in the face of the HIV/AIDS epidemic. For ADB, key issues are the environment, health, and knowledge, with a particular focus on those issues where spillover effects exist within the region or its subregions.

Finally, for EBRD, nuclear safety is an area of special focus. It has taken the lead internationally in supporting countries in transition from socialism in the decommissioning of nuclear capacity, along with the resolution of other environmental liabilities from the socialist era. Another area of focus is financial stability, especially the adoption by EBRD's regional members of the financial standards and codes underpinning market economies.

Taken together, MDBs support a number of regional and subregional programs and initiatives in collaboration with other partners. These regional programs include a mix of RPG programs, including regional infrastructure projects, and multicountry programs. Examples include the following:

- AfDB is supporting the New Partnership for Africa's Development, the African Union, the Global Environment Facility (especially on the development of an Environmental Action Plan for Africa), and the Africa Regional Coordination Unit for the UN Convention to Combat Desertification.

- ADB is supporting the Greater Mekong Subregion Program, which promotes cross-country cooperation in a number of sectors through investments in infrastructure, policy initiatives, and institutional mechanisms. ADB is also supporting regional programs for the Pacific Islands; subregional economic cooperation in Central Asia and South Asia; and cooperation in the Indonesia-Malaysia-Thailand growth triangle and among the countries of Brunei, Indonesia, Malaysia, and the Philippines. Particularly noteworthy is ADB's leadership on tsunami-related work, including its organization of a recent high-level conference and the support it has pledged for an interim tsunami warning system.
- IDB's approach to regional issues has focused on facilitating cross-fertilization of ideas on policy issues. Its Regional Policy Dialogue provides a forum for policy makers to discuss issues of common concern in its seven network areas: education, natural disasters, environment, central banks and finance ministries, poverty and social protection, public policy management, and transparency.
- An example of collaboration between regional development banks on RPGs is the joint sponsorship by ADB and IDB of the recent Tokyo Forum on the Operational Dimensions of Supplying Regional Public Goods through Regional Development Assistance.
- EBRD supports a number of regional programs for private sector development, including for trade facilitation and small and medium-size enterprise development. In addition, a growing number of EBRD projects cover more than one country: examples include regional equity funds, energy trade, and projects in which sponsors from one country invest in another.
- The World Bank supports a large number of regional programs and initiatives in cooperation with other MDBs and other relevant partners. Examples include the Trade and Transport Facilitation in Southeast Europe Program, which promotes more efficient and less costly trade flows and provides customs standards compatible with the European Union; the Latin American regional initiative on infrastructure, in cooperation with IDB; and the strategic framework for IDA assistance to Africa, in cooperation with AfDB and other partners.

Reform of the International Financial Institutions

IFIs' unique comparative advantage and the contributions they have made toward addressing global issues are well recognized. Yet there is a rising expectation on the part of almost all stakeholders—developed and developing country shareholders, academics and think tanks, civil society organizations, and business leaders—that IFIs need to do still more in this domain. However, a number of concerns about IFIs raise questions about the role they can play in global issues management.[3] Many suggestions have been put forward for reform of IFIs. IFIs themselves agree that reform is needed if their shareholders expect them to play an increasing role in regional and global development issues. The suggested reforms can be categorized under the headings of legitimacy, effectiveness, conditionality, and financial capacity and sustainability.

Legitimacy

Legitimacy concerns relate to the extent to which IFIs are perceived as impartial advisers, given that their ownership structure and their policy making powers are skewed in favor of the rich nations. Many in developing countries—officials and citizens alike—as well as international nongovernmental organizations (NGOs) and researchers believe that the developed countries, particularly the United States and the European countries, have an undue influence on IFIs' policies, policy advice, and allocation of funds. Their influence is so great, in this view, that IFIs' advice cannot be trusted to be impartial but, rather, is infected by political and ideological bias. Those who hold this view also criticize the way the heads of IFIs are chosen: by convention, the head of IMF has always been a European, the head of the World Bank an American, the head of the EBRD a European, and the head of ADB a Japanese. (However, the head of AfDB is always an African, and the head of IDB a Latin American.) The critics argue that leadership selections should be made on the basis of merit and in public hearings, not on the basis of national origin.

Given their global nature and influence, concerns over legitimacy are most acute in the case of IMF and the World Bank, and, in response, proposals for reform of these institutions have been tabled for consideration by their shareholders. IMF's medium-term strategy paper proposes the reallocation of existing shareholdings (called quotas) so as to improve the share of developing countries. Other proposals would give more votes to developing countries with large and growing shares of the global economy (such as Brazil, China, India, and South Africa) and to smaller nations (particularly in Africa) that represent a significant share of the work of the two institutions.[4] At the Spring 2006 meetings of IMF and the World Bank, some promising breakthroughs were made when the International Monetary and Financial Committee of the Board of Governors of IMF agreed on the need for fundamental reform and called on IMF's managing director to present concrete proposals for agreement at the annual meetings in September 2006.

Effectiveness

Concerns about effectiveness relate to the adequacy of the results produced by IFIs' development assistance programs, the soundness of their policy advice (for example, on privatization and the liberalization of financial markets), the relevance of such advice for countries' realities, and the need for safeguards both to prevent the loss of development assistance to fraud and corruption and to protect the environment and the rights of people who may be adversely affected by development projects.

IFIs are heeding the call for greater effectiveness in all these areas of concern. In 2002, they launched a Managing for Development Results Initiative, which led to the adoption of the Paris Declaration on Aid Effectiveness. The Paris Declaration, endorsed on March 2, 2005, is an international agreement by nearly 100 ministers, heads of agencies, and other senior officials to continue and increase efforts toward harmonization, alignment, and managing aid for results with a set of monitorable actions and indicators.

In April 2006, MDBs agreed on a Common Performance Assessment System to provide a consolidated source of data on how MDBs are contributing to positive development results. Data will be provided in seven categories: country-level capacity development, performance-based concessional financing, results-based country strategies, projects and programs, monitoring and evaluation, learning and incentives, and interagency harmonization. MDBs hope that this system will improve accountability.

In the area of safeguards on the proper use of funds, all MDBs have policies and procedures in place to prevent fraud and corruption and to protect people and environmental resources that the projects they finance might endanger. However, MDBs have acknowledged that there is room to do more and to do better in this domain, and they have launched efforts to improve and harmonize their policies so as to improve the policies' effectiveness.

IMF's medium-term strategy also lays out several proposals to improve the organization's effectiveness in several areas: country and global surveillance to promote global financial stability; prevention and resolution of crises in emerging markets; and IMF's role in low-income countries to promote a stable macroeconomic environment that promotes growth and poverty reduction.

Conditionality

Conditionality is a standard feature of the loans provided IFIs. It typically refers to the actions that a borrower must take in order to obtain the loan; failure to comply with these conditions may result in suspension, cancellation, or recall of the loan. The purpose of conditionality is to ensure that borrowers take the necessary actions—in terms of policies, provision of technical inputs, implementation, and safeguard measures—to produce the intended development results.

Most observers agree that conditionality related to procurement, financial bookkeeping, auditing, environmental issues, resettlement, and organizational change is needed if development projects are to be implemented effectively. In fact, such conditionality has always been a part of development assistance, and some conditionality is in response to advocacy by NGOs with respect to environmental issues and indigenous peoples' rights. What is controversial about conditionality relates mostly to policy and institutional reforms such as privatization, trade and capital account liberalization, elimination of subsidies, and limits on public expenditure. All of these often feature prominently in adjustment lending (more recently called *development policy lending* or *budget support lending*) by MDBs and IMF. Critics argue, sometimes on the basis of credible evidence, that this type of conditionality has not worked and sometimes has done more harm than good. They also argue that some conditions are merely an attempt to impose Western free-market policies on developing countries where they are neither appropriate nor desired.

IFIs generally agree that policy and institutional conditionality is most effective when it supports reforms on which the country is already taking the lead and that it is ineffective when there is little or no political will to undertake the reforms. At the same time, IFIs face the challenge of assessing whether a country's proposed reforms really address the key policy distortions hampering equitable (pro-poor) growth and whether the borrower is genuinely committed to reform. Without such reform the development objectives supported by the lending cannot be achieved—hence the conditionality.

IFIs are beginning to take a more flexible approach to conditionality. They are looking for more evidence of borrowers' commitment to reforms and are rewarding reforms already undertaken; they are reducing the average number of conditions per lending operation; they are focusing more on long-term institutional issues and on the actions that are most critical for achieving results; and they are increasing transparency and encouraging public debate on the need for reform.

Financial Capacity and Sustainability

Concerns about the financial capacity of IFIs grounded in the fact that the resources needed for the enormous challenges they face—achieving MDGs, avoiding unbalanced growth of the world economy, and providing emergency financing should another global financial crisis occur—far exceed what

IFIs can mobilize today. This capacity shortfall is particularly acute for the concessional financing needed to help the poorest countries and to bridge the huge gap in the supply of global public goods. The undersupply of concessional financing is compounded by recent moves to make more of it available as grants, which, unlike loans, do not generate flows of funds back to the lending institutions for recycling.

These issues of financial viability and sustainability arise from the fact that IFIs' income base is narrow and diminishing, even as the range of services demanded of them is growing. One reason why IFIs' incomes are declining is reduced demand for loans on the part of the middle-income countries, which in turn may be due to the relatively high cost of doing business with IFIs, the conditionality attached to IFI loans, and, in some cases, countries' ability to borrow from private markets at interest rates competitive with those charged by IFIs. The resulting constraints on the incomes of IFIs undermine their ability to devote more resources to global and regional issues.

Awareness of these concerns led developed countries to make new pledges of financial support at the Monterrey Conference on Financing for Development in 2002. As a result, the decline in development assistance has been reversed and aid flows have increased, although not by the full amounts pledged (see chapter 4). Some of the increased funding is being earmarked for global public goods such as prevention and treatment of communicable diseases. Concerns about financial sustainability are also receiving attention, and all IFIs are looking into the causes and possible remedies. All of them are seeking to make their services more attractive by reducing the cost of doing business with them, widening the range of financial products and services they offer, and better leveraging their financial strength so as to boost their own market borrowings. They are also supporting innovative financing mechanisms that can attract private sector funding on concessional as well as on market terms.

Conclusions

IFIs, and particularly IMF and the World Bank, have a mandate from their shareholders to provide both sophisticated analysis and effective financing to address global issues such as those discussed in this volume. IFIs undoubtedly have comparative advantage in mobilizing resources and channeling them into projects that can effectively address these issues. Indeed, IFIs have been playing this role for many years but never on a scale commensurate with the problems. Their efforts are hampered by concerns relating to their legitimacy, their effectiveness, their use of conditionality, and their financial capacity.

Many proposals for reforming IFIs have been put forward, and some of these are being implemented. Successful reform of IFIs will go a long way toward improving their capacity to address the global issues identified in this book.

Notes

1. The information in this section relating to each IFI draws heavily on the publicly available pages of their Web sites. See the list of Web links at the end of the chapter. For information on some of the other institutions mentioned here, see chapter 3 of this volume.
2. This section draws extensively on the *Global Monitoring Report* for 2004 and 2005.
3. A number of books have been written on how to improve the effectiveness of IFIs; some of the most frequently mentioned are those by Buira (2003, 2005), Easterly (2001), Koeberle and others (2005), Mallaby (2004), and Woods (2006).
4. For details of these proposals, see the paper on the Development Committee Web site, http://web.worldbank.org/WBSITE/EXTERNAL/DEVCOMMEXT/0,menuPK:60001663~pagePK:64001141~piPK:64034162~theSitePK:277473,00.html papers.

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Selected Web Links on International Financial Institutions

African Development Bank	http://www.afdb.org
Asian Development Bank	http://www.adb.org
European Bank for Reconstruction and Development	http://www.ebrd.org
Global Monitoring Report	http://www.worldbank.org/globalmonitoring
Inter-American Development Bank	http://www.iadb.org
International Monetary Fund	http://www.imf.org
Managing for Development Results	http://www.mfdr.org
World Bank	http://www.worldbank.org

Editorâ€™s Note : International financial Institutions such as the World Bank and the International Monetary Fund are facing varied economical, financial, political, social and environmental issues today. Their role with regards to the administration of global distributive justice, minimising poverty or aiding in the developmental processes is being called into question. In this paper, the author has tried to expose the internal working procedure of these institutions and the effects of their policies which have been debated vigorously as skepticism looms large in the wake of a worsening economi At the global level these issues are addressed by specialized institutions established by intergovernmental agreements. Although reference is often made in their charters to common broader global objectives regarding economic and social development, in practice each of these institutions focus on its specific mandate and objectives.Â Rather, the entire international system must be capable of supporting the trading system.Â Any decisions on reform of the international financial institutions or the manner in which they conduct their business are the prerogative of their shareholders and their respective Boards of Governors.