United Nation Organisation

12th political Science	**Unit - 11**	**International Organizations**
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12th political Science
Unit 11 - International Organizations

Introduction

When we think of international organizations, it is often considered as a twentieth century phenomenon that began with the establishment of the League of Nations in 1919. However, in the late nineteenth century, in order to deal with specific issues, nations had already established international organizations. Among them were the International Telecommunication Union (ITU), established in 1865 (originally called the International Telegraph Union), and the Universal Postal Union which was established in 1874. Both of these systems are today part of the United Nations system. The International Peace Conference held in The Hague in 1899 elaborated the instruments for settling crises peacefully preventing wars and codifying rules of warfare. It also adopted the Convention for the Pacific Settlementof international disputes and established the Permanent Court of Arbitration (PCA) which began its work in 1902. The PCA served as the first medium for settling international disputes between countries and is the predecessor of the United Nations International Court of Justice (ICJ). The outbreak of World War I in August 1914, and the destruction that followed, exposed the limitations of these mechanisms. It was also followed by the end of an international system called the Concert of Europe that had prevented the continent from the scourge of war since the Napoleonic adventures a century earlier. Between the years 1914-18, Europe witnessed the worst human loss in its history where around twenty million people lost their lives. Empires collapsed (the Ottoman, the Austro-Hungarian and temporarily the Russian) and new nations such as Czechoslovakia, Estonia, andFinland were born, radical revolutions took place in Russia and Germany. In other words, a new world order emerged.

League of Nations
President Wilson's Fourteen Points (1918)

1. Open diplomacy
2. Freedom of the Seas

3. Removal of economic barriers
4. Reduction of armaments
5. Adjustment of colonial claims
6. Conquered territories in Russia
7. Preservation of Belgian sovereignty
8. Restoration of French territory
9. Redrawing of Italian frontiers
10. Division of Austria- Hungary
11. Redrawing of Balkan boundaries
12. Limitations on Turkey
13. Establishment of an independent Poland
14. Creation of an Association of Nations, (League of Nations).

Amidst the carnage, President Woodrow Wilson in January 1918, outlined his idea of the League of Nations which received widespread support given the utter devastation caused by World War I. For many the idea of an international organization seemed to be the answer for settling disputes before they escalated into military conflicts. Although the United States failed to join the League of Nations, President Woodrow Wilson chaired the Versailles Peace Conference's commission on the establishment of an international organization. Wilson declared in a joint session of the U.S. Congress that:

"It is a definite guaranty of peace. It is a definite guaranty by word against aggression. It is a definite guaranty against the things which have just come near bringing the whole structure of civilization into ruin. Its purposes do not for a moment lie vague. Its purposes are declared, and its powers are unmistakable. It is not in contemplation that this should be merely a league to secure the peace of the world. It is a league which can be used for cooperation in any international matter".

The League after being housed temporarily in London, commenced operation in the year 1920 in Geneva, Switzerland. Initially it had some success when it settled disputes between Finland and Sweden over Aland Islands, between Germany and Poland over Upper Silesia and between Iraq and Turkey over the city of Mosul. The League with some success alleviated the refugee crisis in Russia and combatted the international opium trade. The League acted as an umbrella organization for agencies such as the International Labor Organization (ILO) and the Permanent Court of International Justice and it later became a model for the future United Nations (UN).

The League of Nations was dominated by the victors of World War I that included France and Great Britain along with Japan and Italy as the other two permanent members of the League Council. There were twenty eight founding members who were represented in the General Assembly who were mostly from Europe and Latin America. The League of Nations was one that was Eurocentric. Virtually all of Africa, Asia and the Middle East were controlled by European imperial powers. The League also established the mandate system to prepare natives of different regions for self-government and independence. However, it was short sighted and the mandates exploded only after the League ceased to exist. The reasons for the League of Nations to fail were multiple. The absence of the United States was a significant factor in rendering the League ineffectual. Its importance was further minimized when Germany and the Soviet Union who were briefly members had undermined the significance of the organization. Germany joined in 1926 and exited after the Nazis came to power in 1933. In the year 1933 Soviet Union entered the League and was expelled following their attack on Finland in 1939 which also made the USSR the only nation to be expelled from the League.

Japan left the League in 1933 following criticism by the league of its occupation of Manchuria and Italy too was equally dismissive of its membership obligations after its occupation of Ethiopia. These acts of aggression was not adequately countered by the League and the global economic crisis of 1930s certainly curbed the enthusiasm of others and more particularly France and Britain who were not willing to fight distant wars that would not have an immediate effect on their national security. They thus turned to the policy of appeasement which also failed.

In 1938 at the Munich Conference, Britain and France agreed to the dismantling of Czechoslovakia by agreeing to the addition of Sudetenland to Hitler's Reich. Finally, Germany attacked Poland after concluding pact with the Soviet Union in 1939 which dashed all hopes that were placed on the League of Nations. The League of Nations was not capable of applying sufficient pressure on the aggressor nations as it could only impose verbal or economic sanctions against them and these methods failed to intervene militarily.

The League of Nations did not have authority beyond its member nations and this made it possible for countries suffering from the pressure of economic sanctions to trade with non-members and the economic crisis of 1930s also contributed to such trade practices. Additionally, since the League did not have an army of its own, military intervention meant that member states (France and Britain) would have to supply necessary troops.

However, neither country was interested in engaging in potentially costly conflicts in Africa or Asia. The League expelled the Soviet Union in 1939, and it was known widely that the League had failed and did not become what President Woodrow Wilson had hoped as a 'definite guarantee of Peace'. Nevertheless, the onset of the Second World War made it clear there was a definite need for an international organization that wouldsafeguard the world from yet another world war in the future. It was also unanimously that agreed that that a repetition of the League of Nations could not be allowed.

The United Nations

Although the League of Nations did not succeed in its objectives, it however, ignited the dream for a universal organization that would work to preserve peace in the world. With the end of the Second World War which witnessed around 72 million casualties, the idea of the United Nations was born. World leaders who had collaborated to bring the war to an end felt a strong need for a mechanism that would ensure lasting peace and prevent future wars. It was also felt that this was possible only through a global organization where all nations would work together.

The name 'United Nations' was coined by the then United States President Franklin D. Roosevelt andwas first officially used in 1942 when representatives from twenty six nations signed the Declaration by United Nations to continue to fight together against the axis powers in order to obtain just peace. Thus unlike the League of Nations, it began as an alliance that came into being soon after the United States' entry into the war following the attack on Pearl Harbour by Japan and Germany's declaration of war against the United States in December 1941. In August 1944, delegates from China, Soviet Union, United Kingdom and the United States, met in Dumbarton Oaks to draw the basic blueprint for the new International Organization and by October the outline of the United Nations Charter was ready.

Four main purposes of the United Nations

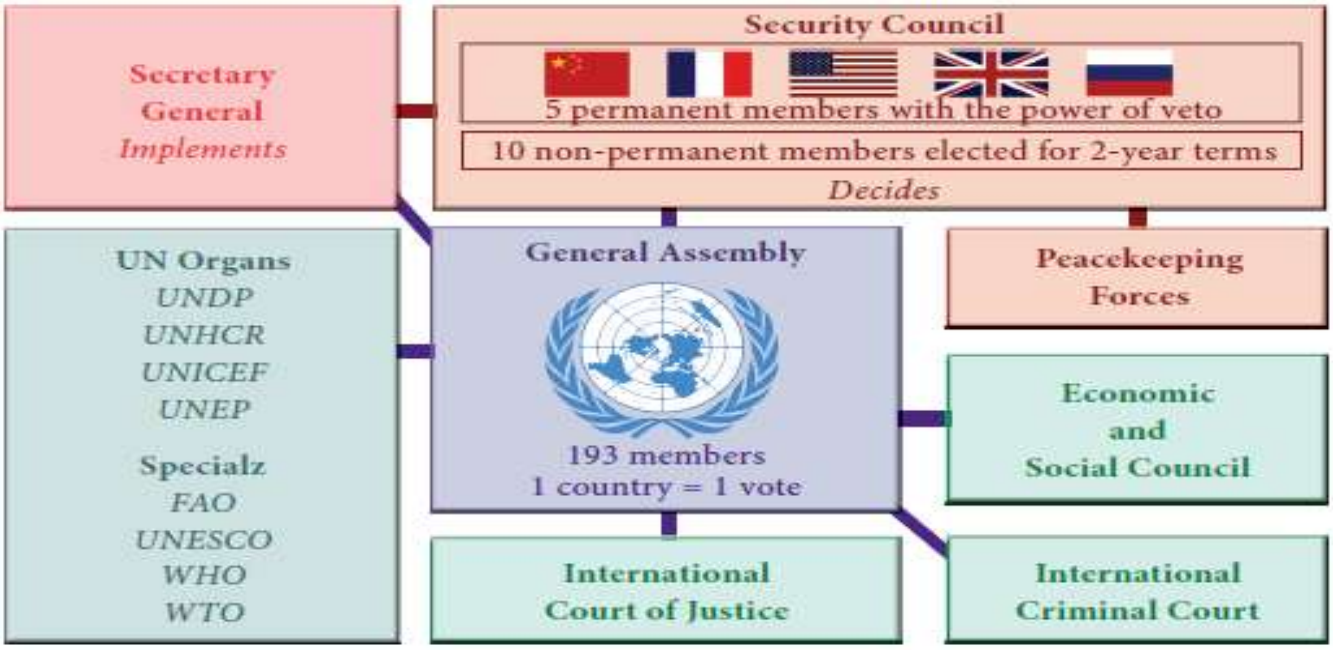
- Military security
- Economic and social progress
- Upholding of human rights
- International justice.

Following the surrender of Germany in the year 1945, representatives from fifty countries met in San Francisco on June 26, 1945 and signed the Charter. With the conclusion of the Pacific war in October 24, 1945, the United Nations officially came into existence. While making the UN Charter, the drafters faced the same issue that the League of Nations faced which was to lay the foundation of an international organisation that would guarantee peace.

The basic dilemma remained unchanged – how to balance nationalsovereignty and international idealism? How could one draft a Charter that would effectively deal with the fact that some countries were more equal than others? How could one make sure that one country could not simply walk out when it did not like the decisions of the UN, as Japan had done earlier in the 1930s. The simple solution that the drafters came up with was the veto power. Veto power was granted to the five founding members of the UN – China, France, Great Britain, the United States and the Soviet Union who are also known as the Permanent Five (P-5). Although the founders of the UN were keenly aware of the failures of the League of nations, most of its ideals constituted the core element of the UN Charter. Most evidently, the UN Charter and the League of Nations Covenant had promotion of international security and the peaceful settlement of disputes as its key goals, however, the Charter included two more elements that were also given importance.

Although it was reflected briefly in article 23 of the League of Nations Covenant, the UN Charter included social and economic progress into its key goals. The emphasis laid on social and economic progress was rooted in the inter-war years. Many saw the global economic crisis of the 1920s to the 1930s as the root cause of political upheavals that led to the rise of ultra nationalism and acts of aggression that resulted in the Second World War. Thus the UN was created to be an active participant in world affairs such as
(i) Military security
(ii) Economic and social progress
(iii) Upholding of human rights and
(iv) International justice.

Structure of the United Nations



In 1945, the six major organs of the UN were (i) the General Assembly, (ii) Th e Security Council, (iii) Economic and Social Council (iv) Trusteeship Council, (v) International Court of Justice and (vi) the Secretariat. The Trusteeship Council became obsolete following the completion of the decolonization process which it oversaw. However, these organs constitute the basic superstructure of the UN. All organs of the UN meet regularly and members vote to make decisions, issue declarations and discuss issues that are of prime importance. Yet the functions of the organs differ significantly vis-à-vis each other. While the General Assembly is the Parliament of the UN, the Security Council is its executive committee, the secretariat is the operational body or the bureaucracy that runs the UN.

The General Assembly

The General Assembly is the main deliberative organ of the UN which is comprised of Member States and each onehas a vote no matter its influence or size. Discussions often include issues arising under the UN Charter, decisions on international peace and security, admitting new member states and the UN budget is decided by two-thirds majority. It is based on the principle of one nation one vote. Resolutions taken by the General Assembly are only recommendations to the member states, but since they represent the views of majority of the world, it carries with it a heavy moral weight and oft en leads countries to join international agreements called treaties, conventions, protocols, etc., that ultimately has animpact on the world. The General Assembly's sessions begin in September every and most resolutions are made between September and December. Requests for special sessions may be initiated by the Security Council or if a majority of its members make a request. At the beginning of each regular session, the General Assembly has a two-week general debate in which heads of State present their views on a wide range of issues such as terrorism, war, poverty, hunger and disease. The work of the General Assembly is carried out by six committees:

Six Main Committees of the General Assembly

- First Committee (Disarmament and International Security)
- Second Committee (Economic and Financial)
- Third Committee (Social, Humanitarian and Cultural)
- Fourth Committee (Special Political and Decolonization)
- Fifth Committee (Administrative and Budgetary)
- Sixth Committee (Legal).

List of United Nations Peacekeeping Operation

S.No	Continent	Name of Operation	Location	Conflict	Year
1	Africa	United National Operations in the Congo (ONUC)	Democratic Republic of the Congo	Congo Crisis	1960-1964
2	Asia	United Nations India- Pakistan Observation Mission (UNIPOM)	India Pakistan	Indo- Pakistan War of 1965	1965-1966
3	Europe	United Nations Disengagement Observer Force (UNDOF)	Israel Syria Lebanon	Agreed withdrawal by Syrian and Israeli forces following the Yom Kippur War	1974
4	Africa	United Nations Operation in Somalia I (UNOSOM I)	Somalia	Somali Civil War	1992-1993
5	Africa	United Nations Mission for Rwanda (UNAMIR)	Rwanda	Rwandan Civil War	1993-1996
6	America	United Nations Mission in Haiti (UNMIH)	Haiti	1991 Coup and military rule in Haiti	1993-1996
7	America	United Nations Mission in Bosnia and Herzegovina (UNMIBH)	Bosnia and Herzegovina	Bosnia War	1995-2002
8	Europe	United Nations Interim Administration Mission in Kosovo (UNMIK)	Kosovo	Kosovo War	1999
9	Africa	United Nations Mission in Sierra Leone (UNAMSIL)	Sierra Leone	Sierra Leone Civil War	1999-2006
10	Africa	United Nations Mission in Ethiopia and Eritrea(UNMEE)	Eritrea Ethiopia	Eritrean-Ethiopian War	2000-2008
11	Africa	United Nation Mission in the Sudan(UNMIS)	Sudan	Second Sudanese Civil War	2005-2011
12	Asia	United Nations Integrated Mission in Timor- Leste (UNMIT)	East Timor	2006 East Timor Crisis	2006-2012
13	Europe	United Nations Supervision Mission in Syria (UNSMIS)	Syria	Syrian Civil War	2012
14	America	United Nations Mission for Justice Support in Haiti (MINUJUSTH)	Haiti	2004 Haiti rebellion	2017

India' Aspirations to Become a Permanent Member of UNSC:

Indian strategic interest in the Council seat has also been shaped by its history of interacting with the Security Council. In the early years of its independence during its armed conflict with Pakistan on Kashmir, India paid the price for being "idealistic" to take the Kashmir issue to the UN wherein it had to battle hard realpolitik of Cold war years leading to UN interventions over the Kashmir dispute. To prevent this negative outcome ever again, the Indian presence at the Security Council, it is hoped will ensure Indian interests are not sacrificed at the altar of great power politics. Most importantly, it will stall any possible intervention by China, a permanent member at the behest of its ally Pakistan.

Indian interests in the Security Council also flow from the larger, many foreign policy debates in India on whether it will be a status quo power that accepts liberal norms and positions itself as a "responsible stakeholder' in the international system or a revisionist power that seeks to redefine the norms of international engagement. Many pundits agree that India would be moderately revisionist that seeks to adjust international norms and frameworks that suits its global vision, without seeking to overthrow the current international system.

India has always seen itself as a champion, a 'moralistic force' of the so called Third World, the developing states. Former Secretary General Kofi Annan has been quoted as saying that India has been one of the most significant votaries of shaping the UN agenda on behalf of the developing world. At his speech in New Delhi, Annan stated: "Indians have better understood than many other peoples that the goals of the 'larger freedom' that which include development, security and human rights are not alternatives. They have been single-mindedly pursuing larger freedom through pluralist democracy."

Criticism of Veto Power in UNSC

The veto power has been criticized for its undemocratic nature. A single country can prevent a majority of the Security Council from taking any action. For example, the United States routinely casts lone vetoes of resolutions criticizing Israel. The permanent members also veto resolutions that criticize their own actions. In 2014, Russia vetoed a resolution condemning its annexation of Crimea. Amnesty International claimed that the five permanent members had used their veto to "promote their political self interest or geopolitical interest above the interest of protecting civilians."

Some critics see the fact that veto power exclusive to the permanent five as being anachronistic, unjust, or counterproductive. Peter Nadin writes that "The veto is an anachronism. In the twenty-first century, the veto has come to be almost universally seen as a disproportionate power and an impediment to credible international action to crises." The "enormous influence of the veto power" has been cited as a cause of the UN's ineffectiveness in preventing and responding to genocide, violence, and human rights violations. Various countries outside the P5, such as the Non-Aligned Movement and African Union have proposed limitations on the veto power. Reform of the veto power is often included in proposals for reforming the Security Council.

It has been argued that with the adoption of the "Uniting for Peace" resolution by the General Assembly, and given the interpretations of the Assembly's powers that became customary international law as a result, that the Security Council "power of veto" problem could be surmounted. By adopting A/RES/377 A, on 3 November 1950, over two-thirds of UN Member states declared that, according to the UN Charter, the permanent members of the UNSC cannot and should not prevent the UNGA from taking any and all action necessary to restore international peace and security, in cases where the UNSC has failed to exercise its "primary responsibility" for maintaining peace. Such an interpretation sees the UNGA as being awarded "final responsibility"—rather than "secondary responsibility"—for matters of international peace and security, by the UN Charter. Various official and semi-official UN reports make explicit reference to the Uniting for Peace resolution as providing a mechanism for the UNGA to overrule any UNSC vetoes; thus rendering them little more than delays in UN action, should two-thirds of the Assembly subsequently agree that action is necessary.

The Security Council

Under the UN Charter the Security Council has the responsibility to maintain international peace and security. Unlike the General Assembly which has regular meetings, the Security Council does not have such meetings and can be convened at any time whenever there is a threat to international peace. Member States are obligated to carry out the decision of the Security Council which are legally binding. When a threat to peace is brought to the Council, it generally asks the conflicting parties to reach an agreement by peaceful means and if fighting breaks out, the council tries to secure a ceasefire through negotiations, economic sanctions or by authorizing the use of force which will be carried out by a willing member of the UN.

The Council would also decide on peacekeeping operations to build lasting peace. The Security Council has fifteen members which includes five permanent members (P-5). The other ten members are elected by the General Assembly on rotation basis for a period of two years. In order to pass a resolution in the Security Council nine out of fifteen votes is required. However, if any one of the P-5 Members votes 'No', often referred as Veto, the resolution does not pass. There are at present, proposals to include more permanent members into the Council and these proposals are under discussion by the Member States of the UN.

The Economic and Social Council

The Economic and Social Council of the UN which has fifty-four members who are chosen for equal geographical representation and serve a three-year term is the central body of the UN for coordinating the economic and social work of the UN and the UN system. Over seventy percent of the UN System is devoted to promoting higher standards of living, alleviating poverty through full employment; economic and social progress; and development. It promotes, economic growth in developing countries, supports human rights, and fosters world cooperation to alleviate poverty and under-development. In order to address specific needs of the council, it has established a number of specialized agencies such as the Food and Agriculture Organization (FAO), The World Health Organization (WHO), the UN Educational, Scientific and Cultural Organization (UNESCO), UN Development Programme (UNDP), UN Children's Fund (UNICEF), and the UN High Commissioner for Refugees (UNHCR).

The Trusteeship Council

Under the UN Charter, the Trusteeship Council was assigned to monitor the administration of eleven Trust Territories – former colonies. At the end of the Second World War, this system was created for the advancement of the inhabitants of those dependant territories for their progressive development towards self-governance or independence.

Eleven Trust Territories and more than seventy colonial territories achieved independence with the help of the United Nations. In 1994, Palau became the last Trust Territory to become independent and subsequently the council decided to suspend operations and meet when occasion might require. China, France, United Kingdom, the Russian Federation and the United States who are permanent members of the UN Security Council comprise the Trusteeship Council. All Members of the Council have one vote and decisions are made by a simple majority. Since the process of decolonisation has been completed the Trusteeship Council is no longer relevant in present scenario.

The International Court of Justice

The UN's main judicial organ is the International Court of Justice (ICJ) and is located in The Hague, Netherlands. The ICJ or World Court was established in 1945 and began it functions in 1946. It's predecessor was the Permanent Court of Arbitration (PCA). The Court settles disputes between nations and does not take up individual cases according to international law. Unless required by special treaty provisions, a country does not need to take part in a proceeding if it does not wish to. If any country accepts the jurisdiction of the court, then it must comply with its decisions.

Since 1946, the ICJ has examined over 150 cases and issued numerous judgements pertaining to economic rights, environmental protection, rights of passage, the non-use of force, non- interference in the internal affairs of states, diplomatic relations, hostage-taking, the right of asylum and nationality. The court is presidedby fifteen judges elected for nine year terms, each belonging to a different nation. The judges are selected by both the General Assembly and the Security Council. The seat of the Court is at The Hague in Netherlands and its offices occupy the 'Peace Palace' which was constructed by the Carnegie Foundation which a non-profit organization to serve as the headquarters of the Permanent Court of International Justice under the League of Nations. The UN makes an annual contribution to the Foundation for the use of the building. UNSC refer cases to the ICJ.

The Secretariat

The UN Secretariat administers the programs and the policies laid out by the other principal organs of the UN. The Secretary General heads the Secretariat and is appointed by the General Assembly on the recommendations of the Security Council. The Secretary General is appointed for a five-year term which is renewable. As the chief administrative officer of the UN the Secretary General directs the work of other staff in the organization who are known as international civil servants.

List of Secretary Generals

1. Trygve Lie (Norway), 1946- 1952
2. Dag Hammarskjöld (Sweden), 1953-1961
3. U Th ant (Burma, now Myanmar), 1961-1971
4. Kurt Waldheim (Austria), 1972-1981
5. Javier Pérez de Cuéllar (Peru), 1982-1991
6. Boutros Boutros-Ghali (Egypt), 1992-1996;
7. Kofi Annan (Ghana), 1997-2006
8. Ban Ki-moon (Republic of Korea), 2007- 2016
9. Antonio Guterres (Portugal) 2017 – continuing

Unlike diplomats who represent a particular country, these international civil servants work for all 193 Member States and take orders from the Secretary General and not from governments. The Secretariat is headquartered at New York and has its offices at Geneva, Vienna, Nairobi, Addis Ababa, Beirut, Santiago and Bangkok. Comprising of over 16,000 staff drawn from member states, the Secretariat administers to the day-to-day work of the organization.

These duties are varied and range from peacekeeping operations, mediating international disputes, surveying social and economic trends to laying the groundwork for international agreements and organizing international conferences. The role of the Secretariat which is multi-faceted is under constant pressure from the dyad of nation- state imperatives and universal goals.

The Secretary-General may bring to the attention of the Security Council matters that may in his opinion disturbinternational peace and security. He can also use his good offices to prevent conflicts or promote peaceful settlements of disputes between nations. The Secretary General can also act upon his own discretion to deal with humanitarian or any other problem that might require special importance.

The UN family though is much larger, is encompassed by fifteen agencies and several programs and bodies. Some of these organizations were founded during the era of the League of Nations such as the International Labour Organization (ILO). Many more were created since 1945 to address and solve specific issues and problems since 1945 for which the UN was established. This has resulted in much complexity of the UN and in the following decades since the founding of the organization contribute to the escalation of tasks that the UN had been charged to undertake. As a result, new bodies were added on a regular basis while some were made to be temporary bodies such as the UNHCR, they have nevertheless become permanent organs. The UN also has a hybrid set of subsidiaries and partners and throughout its history it has been associated with almost three thousand non-governmental organizations.

Envisioned in 1945 in article 77 of the UN Charter, it states explicitly that the UN 'may make suitable arrangements for consultation with nongovernmental organizations which are concerned with matters within its competence'. This made it possible for the UN to work with hundreds of NGOs to undertake humanitarian work in conflict zones, for example, the UN Mission in Bosnia and Herzegovina(UNMIBH) between 1995-2002. In 2007, thirty-two NGOs issuedan open letter to the Secretary General to pressurize Sudan's government to permit a Joint African Union/United Nations Peacekeeping force to enter the conflict-ridden Darfur region. In the following sections, some of the important organs of the United Nations such as the International Monetary Fund, the World Bank and international organizations such as Asian Development Bank, Amnesty International and Human Rights Watch would be examined.

The ECOSOC under the UN mandate coordinates the economic and social work of the UN and the UN family of organizations. It therefore plays a key role in fostering international cooperation for development. While the Security Council was charged with weighty issues of military security, the ECOSOC was left to deal with questions of economic security. However, these were not to be taken lightly as many who were involved in the drafting of the UN Charter considered the great economic depression during the 1930s as the root cause for the second World War. The ECOSOC although a relatively powerless body of the UN structure, oversees a number of functional and regional commissions. The Commission on Human Rights monitors the observance of human rights across the world. Other bodies focus on social development, the status of women, environmental protection, crime prevention and narcotic drugs. However, the ECOSOC's mission continues to remain amorphous. The true global economic power infactlies with the so called three sisters (i) the World Bank (ii) The International Monetary Fund and (iii) the World Trade Organization.

The World Bank

The World Bank which is based in Washington, was originally known as the International Bank for Reconstruction and Development (IBRD). The World Bank or oft en referred to as the Bank Group was founded in 1945 and serves as the largest source of funding and knowledge for developing countries in the world. The term "world bank" was first used in reference to IBRD in an article in the Economist on July 22, 1944, in a report on the Bretton Woods Conference. The primary focus of the Bank is to work with the poorest people and the poorest countries through its five institutions to reduce poverty, increase economic growth and increase the quality of life by using its financial resources and its extensive experience. The World Bank is managed by its member countries who are lenders, borrowers or donors.

Many developing countries in the world use the World Bank's assistance ranging from loans and grants to technical assistance and policy advice. The Bank works with a wide range of actors that includes government agencies, civil society organizations, other aid agencies and theprivate sector. Although the fundamental mission of the World Bank is reducing poverty and improving the quality of life has not changed, in recent times it is adjusting its approaches and policies to the needs of developing countries in the new economic context. Challenges to development now requires institutions that are not only close to the people but are also capable of mobilizing key actors whether the government, private sector or the civil society to address global threats. In order to address these challenges, the Bank has sharpened its focus on strategic priorities, reforming its business model and improving its governance. These reforms include inclusiveness, innovation, efficiency, effectiveness and accountability and fall into five areas:

Reforming the Lending model:

By modernizing its financial services and lending model, the Bank seeks to provide more tailored responses to the borrowers' needs. Calling for closer attention, the approach seeks to establish substantial results and for stream lined processes, improved supervision and higher risk investment.

Increasing Voice and Participation:

With an additional seat in the Board of Directors for Sub-Saharan Africa and an increase in voting power of developing countries, the Bank seeks to elevate the representation and influence of developing and transition countries that are in the Bank Group.

Promoting Accountability and Good Governance:

Among its key concerns, the Bank has governance and anticorruption across sectors and countries. This is based on the mandate to reduce poverty – a capable and accountable state creates opportunities for all to develop.

Five Institutions of the World Bank
❖ The International Bank for Reconstruction and Development ❖ The International Development Association ❖ International Finance Corporation ❖ The Multilateral Investment Guarantee Agency ❖ The International Centre for Settlement of Investment Disputes

Increasing Transparency, Accountability and Access to Information:

The Bank's ability to access information policy provides opportunities for the Bank to share its knowledge and experience with a wide audience in order to enhance its quality of operations by providing more information about projects and programs than ever before.

Modernizing the Organization:

To make it a better development partner, the Bank is undergoing a series of reforms. There are three main areas in which these reforms are taking place (i) it is modernizing its lending and knowledge products and services to better serve its clients and to serve their efforts to reduce poverty better,
(ii) improvements in sharing and access to knowledge and expertise both from within and outside is being undertaken and
(iii) it is modernizing the processes and systems that underpin the Bank's work.

Since the beginning of operations in 1946 with thirty-eight members, there has been a dramatic change in the number of members and the conditions in the world. As many nations became independent from colonial rule, they gradually joinedthe institution and subsequently the bank and the development needs of member states expanded. There are five institutions that constitute the World Bank
(i) the International Bank for Reconstruction and Development,
(ii) International Development Association
(iii) International Finance Corporation,
(iv) The Multilateral Investment Guarantee Agency and
(v) The International Centre for Settlement of Investment Disputes.

The International Bank for Reconstruction and Development (IBRD):

The main objective of the IBRD is to reduce poverty in middle-income countries and credit worthy low income by promoting sustainable development through loans, guarantees and analytical and advisory services. It was established in 1945 and has 184 members. Its net income and allocable income for the fiscal year in June 2018 amounted to $698 billion.

The International Development Association:

It supports country-led initiatives for poverty reduction in the poorest countries with interest-free credits and grants with money received from contributions made by members. It was established in the year 1960 and its total commitment amounted to $24 billion in the fiscal year June 2018.

The International Finance Corporation:

It provides loans to the private sector to promote economic development in developing countries. It was established in 1956 with 176 members and its investments in the year 2018 amounted to $23.3 billion.

The Multilateral Investment Guarantee Agency:

This agency encourages private companies to invest in developing countries by providing guarantees against such risksas breach of contract, conflict, war and currency inconvertibility. It was established in the year 1988 with 164 members with net business reaching a record high of $5.3 billion.

The International Centre for Settlement of Investment Disputes:

It encourages foreign investment in developing countries by providing facilities for arbitration of investment disputes. It was established in 1966 with 140 members.

The International Monetary Fund(IMF)

The International Monetary fund or the Fund is the world's largest premier international financial institution. It was conceived at the Bretton Woods conference in 1944 as a global response to the great economic depression of the 1930s. The fundamental idea for setting up an international financial institution was to help avoid the 'beggar thy neighbour' policies that characterized that period.

It was established to provide short term and medium term finance to member countries facing balance of payments difficulties so that they could pursue policies of economic adjustment that did not rely on competitive devaluation and protectionist trade policies.

The Mandate of the International Monetary Fund

The International Monetary Fund (IMF) is an independent international organization with 185 member countries with the objective to promote economic stability and growth. The member countries are the shareholders in the cooperative and provide capital for the International Monetary Fund through quota subscription. The IMF in return provides its members with macroeconomic policy advice, financial aid in times of balance payments need and technical assistance and training to improve national economic management. The IMF is one of the several autonomous organizations of the UN with the designation of specialized agency and is also a permanent observer of the UN. Article 1 of the IMF mandate sets out the following objectives:

- To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- To give confidence to members by making the general resources of the IMF temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- To shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.
- The mandate of the IMF gives it a unique character as an international monetary institution having broad oversight responsibilities for the proper functioning and development of the international and monetary financial system.

Functions of the International Monetary Fund:

The IMF pursues a wide range of functions in accordance with its mandate. It is as follows:

Surveillance of Members' Economic Policies: Nations who are members agree to pursue economic policies that are consistent with the objectives of the IMF and the articles of agreement confer on the IMF the legal authority to oversee compliance with this obligation which makes the IMF the only organization that has the mandate to examine regularly the economic conditions of virtually all countries in the world.

Financing Temporary Balance of Payment Needs: In order to enable countries to make orderly corrective measures and avoid disorderly adjustment of the external imbalance, the IMF lends to its member countries to provide a temporary respitefrom balance of payments. In addition to providing direct funding to member countries, the IMF also plays a catalytic role in mobilizing external financing for countries' balance of payment needs.

Combating Poverty in Low Income Countries: The IMF provides low-income member countries with concessional loans to help these countries in their efforts to eradicate poverty. In this endeavour, the IMF works closely with the World Bank and other development partners. In addition, the IMF participates in two international initiatives to provide debt relief (i) Heavily Indebted Poor Countries (HIPC) and (ii) Multilateral Debt Relief Initiative (MDRI).

Mobilizing External Financing: The IMF's endorsement of a countries policies serve as an important catalyst in mobilizing external funding from bilateral and multilateral lenders and donors. Policy assessments and recommendations of the IMF also provide important signals to investors and financial markets regarding a country's economic future and the impact on investor and market confidence in the economy.

Strengthening the International Monetary System: Being the central institution in the international monetary system, the IMF serves as a forum for consultation and collaboration by members on international and monetary matters. It works with other multilateral institutions to devise international rules that would help prevent and promote an orderly resolution of international economic problems.

Increasing the Global Supply of International Reserves: If there is a global need to supplement existing reserves, the IMF has the authority to issue an
international asset called the Special Drawing Right (SDR). These SDRs belong to the net international reserves of members and can be exchanged for convertible currencies.

Building Capacity Through Technical Assistance and Training: The IMF with its expertise provides training and technical assistance for member countries to design economic policies and improve economic management capabilities. This helps in reduction of policy failures and resilience to shocks and facilitates program design and implementation. These activities are important particularly for developing countries where resources are scarce and institutions are often weak.

Dissemination of Information and Research: The IMF is a premier source for Economic analysis of its member countries' economic policies and statistical information. The IMF disseminates information through numerous reports, research studies and specialized statistical publications. It also conducts research in areas that are in accordance with its mandate and operations mainly to improve its economic analysis and its advice to member countries. These publications often appear in books, articles in journal, working papers, occasional papers and the internet.

However there prevails a general criticism that the MIF, at present, function as an institution to promote corporate interests, through commercialisation of the services, including education and health, and by subordinating peoples' welfare and development to profiteering business interest, and the sovereign states are compelled to be subservient to international corporate business.

Asian Development Bank

Unlike the IMF which is largely self-financing, Multilateral Development Banks (MDBs) are highly dependent on shareholder contributions particularly in terms of financing their operations of their soft loan windows, that provide grants and low interest loans to very poor countries. MDBs belong to a complex set of public institutions that can be categorized as (i) global, (ii) regional and (iii) Sub-regional. Categorizations of all MDBs are done by taking into consideration their regional coverage. This facilitates the process of clearly understanding the similarities and differences among them by using common denominators rather than extensive individual assessments.

Most MDBs fall in the above mentioned three categories and directly target a particular continent such as the Asian Development Bank, the African Development Bank, Asian Infrastructure and Investment Bank, New Development Bank, Inter-American Development Bank, Islamic Development Bank, European Investment Bank, etc. During the late 1930s and early 1940s, the concept of economic development began to emerge in the contemporary sense. The prominent British economist John Maynard Keynes addressedeconomic and social needs that emerged in the post-war period. Harry Dexter White- an American economist was a key figure in envisioning the set of institutions that were to be created as envisioned by John Maynard Keynes. White, in the year 1942 paved the path towards the fundamentals of a development policy when he prepared a proposal for a United Nations Stabilization Fund and Bank for Reconstruction and Development of the United and Associated Nations, that would provide the basis for a post-war international monetary reform. The proposal called for the creation of two related institutions with the powers, resources and structure adequate to address major issues in the post-war period.

MDBs such as the World Bank and the Asian Development Bank (ADB) are publicly financed institutions that are responsible for setting the development agenda of their member countries. Almost all countries in the world with the exception of Cuba and North Korea are members of MDBs. All countries with membership in MDBs contribute to the institution since they are affiliated to and avail loans from them. MDBs emphasize that largescale development projects such as hydroelectric dams, irrigation projects, transportation development, oil and gas projects have the potential to reduce poverty and increase economic activities that would be aimed at development. However, on the contrary, there are others who oppose such development projects since they have terrible consequences to the environmentand their lives, negates the Banks' claim. Many argue that the damage done through these projects not only affect their welfare, but have negative social, economic and environmental results that are irreversible.

The Asian proverb – 'Fire cooks but it could also burn a house', is overwhelmingly true if compared in terms of the loans provided for development projects by the ADB to its Developing Member Countries (DMCs) show so far that there are more charred houses that cooked food. The Asian Development Bank is a regional multilateral finance institution that is dedicated to the realization and reduction of poverty in Asia and the Pacific. The ADB was founded in1966 and has 62 member countries and most of them belong to the region. The ADB has an equity capital of $44 billion and reserves of $7.9 billion. Since its beginning in 1966 to the year 2002 the Bank has approved loans to both the public and private sectors amounting to $98.831 billion and disburses $5 billion in loans and projects across the region and earns from it an annual return of $500 million.

The ADB's Poverty Reduction Strategy (PRS) is the central component of its Long-Term Strategic Framework (LTSF 2001 - 2015). This fifteen-year agenda of the ADB subscribed to the United Nations Millennium Development Goals to achieve the target of halving the number of people living in poverty worldwide. According to the Bank's claim, its development agenda is to improve the welfare of the people living in Asia and the Pacific, more particularly about 900 million Asians who are living in poverty and earn less than a dollar a day. Among the priorities of the ADB are economicgrowth, human development, gender and development, good

governance, environmental protection, private sector development and regional co-operation. The ADB now operates through five geographically contiguous areas which addresses country and sector themes. The groupings are
(i) East and central Asia,
(ii) the Mekong,
(iii) the pacific,
(iv) south Asia and
(v) southeast Asia.

Each of the regional departments undertake country planning and programming of sub-regional and country-specific assistance. Similar to any other bank, the ADB receives resources from its shareholders. Japan and the United States have the largest shares among the 62 country members that amounts to 15.9 percent of shares.

Shanghai Cooperation Organization

Key takeaways of the meet/Qingdao declaration

- India refused to endorse the ambitious Chinese Belt and Road Initiative (BRI).
- India coined SECURE strategy for comprehensive security in the SCO region.

Shanghai Cooperation Organization (SCO)

- It is an Eurasian political, economic, and security organization formed in 2001 and headquartered in Beijing.
- It owes its origin to its predecessor Shanghai Five (a multilateral forum founded by 5 countries China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan in Shanghai in 1996).
- Its driving philosophy is known as the "Shanghai Spirit" which emphasizes harmony, working by consensus, respect for other cultures, non-interference in the internal affairs of others, and non-alignment.
- SCO comprises eight-member states, India, Kazakhstan, China, Kyrgyz Republic, Pakistan, Russian, Tajikistan and Uzbekistan.
- 2018 year meet is India's first participation in the summit as a full-time member. India, along with Pakistan, became full-time members during the Astana summit in Kazakhstan in June 2017.
- Besides it has 4 observer states and 6 dialogue partners.

Organization of the Petroleum Exporting Countries (OPEC)

Asian Premium

- It is the extra charge being collected by OPEC countries from Asian countries when selling oil.
- It has roots in the establishment of market oriented crude pricing in 1986.
- There are 3 important benchmarks in global market, representing the cost of oil produced in respective geographies.

Brent: Light sweet oil representative of European market

West Texas Intermediate (WTI): US market
Dubai/Oman: Middle East and Asian Market.

- However, US and Europe had an advantage because their markets and prices were based on future trading and reflected every trend in the crude market. On the other hand, Asia represented by Dubai/Oman do not have any derivative trading, doesn't have that edge.
- Hence, price charged from Asian countries remained $1-$2 dollar higher than that from Europe and the US. This price differential is termed as 'Asian Premium'.

About OPEC

- It is an intergovernmental organisation whose stated objective is to "co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry."
- It is headquartered at Vienna, Austria.
- It was set up at the 1960 Baghdad Conference with Iran, Iraq, Kuwait, Saudi Arabia and Venezuela as founding members.
- It accounts for an estimated 44 percent of global oil production and 81.5 percent of the world's "proven" oil reserves.

International Atomic Energy Agency

- It is the world's central intergovernmental forum for scientific and technical cooperation in the nuclear field.
- It is an autonomous international organization within the United Nations system set up in July 1957 through its own international treaty, the IAEA Statute.
- The IAEA reports to both the United Nations General Assembly and Security Council.
- It works for the safe, secure and peaceful uses of nuclear science and technology.
- contributing to international peace and security and the United Nations' Sustainable Development Goals.
- It is headquartered in Vienna, Austria. India is a member of IAEA.
- The objective of IAEA Safeguards is to deter the spread of nuclear weapons by the early detection of the misuse of nuclear material or technology.
- In 2009, an Agreement between the Government of India and the IAEA for the Application of Safeguards to Civilian Nuclear Facilities was signed. Then in 2014, India ratified an Additional Protocol (as part of its commitments under US-India nuclear deal) to its safeguards agreements with the International Atomic Energy Agency (IAEA).
- The AP is an important tool of the IAEA, over and above the provisions of the safeguard agreement, to verify the exclusively peaceful nature of a country's nuclear programme.

BIMSTEC

- BIMSTEC is a regional organization comprising seven Member States lying in the littoral and adjacent areas of the Bay of Bengal including Bangladesh, Bhutan, India, Nepal, Sri Lanka, Myanmar and Thailand.
- This sub-regional organization came into being on 6 June 1997 through the Bangkok Declaration.
- Its Secretariat has been established at Dhaka.

About South-South Cooperation (SSC)

- South South Cooperation (SSC) is defined as the **exchange and sharing of developmental solutions among countries in the global south**.
- The formation of SSC can be traced to the **1955 Bandung Conference.**

IBSA

- It is an international tripartite grouping for promoting international cooperation of India, Brazil and South Africa.
- It was formally established by the Brasilia **Declaration of 6 June 2003** by external affairs ministers of India, Brazil and South Africa.
- It represents three **important poles for galvanizing South-South cooperation** and greater understanding between **three important continents of the developing world**.

IBSA Mechanism for Development Cooperation - IBSA Fund for the Alleviation of Poverty and Hunger

- It was set up with the objective of facilitating the execution of human development projects to advance the fight against poverty and hunger in developing countries.
- Each member country contributes **$1 Million annually** to this fund.

The IBSA Fund is managed by the **United Nations Office for South-South Cooperation (UNOSSC)**.

North Atlantic Treaty Organization (NATO), 1949

The North Atlantic Treaty Organization was created in 1949 by the United States, Canada, and several Western European nations to provide collective security against the Soviet Union.

NATO was the first peacetime military alliance the United States entered into outside of the Western Hemisphere. The nations ofWestern Europe wanted assurances that the United States would intervene automatically in the event of an attack. As a result of tensive negotiations the North Atlantic Treaty was signed in 1949. In this agreement, the United States, Canada, Belgium, Denmark, France, Iceland, Italy, Luxemburg, the Netherlands, Norway, Portugal, and the United Kingdom agreed to consider attack against one an attack against all, along with consultations about threats and defence matters. The collective defence arrangements in NATO served to place the whole of Western Europe under the American "nuclear umbrella." Although formed in response to the exigencies of the developing Cold War, NATO has lasted beyond the end of that conflict, with membership even expanding to include some former Soviet states. It remains the largest peacetime military alliance in the world.

About UN Global Counter-Terrorism Coordination Compact

- It is an agreement between the UN chief, 36 organizational entities, the International Criminal Police Organisation (INTERPOL) and the World Customs Organisation, to better serve the needs of Member States when it comes to tackling international terrorism.

Objective

- To ensure that the United Nations system provides coordinated capacity-building support to Member States, at their request, in implementing the UN Global Counter-Terrorism Strategy and other relevant resolutions.
- To foster close collaboration between the Security Council mandated bodies and the rest of the United Nations system.
- The UN Global Counter-Terrorism Compact Coordination Committee will oversee and monitor the implementation of the Compact which will be chaired by UN Under-Secretary-General for counterterrorism.
- It will replace the Counter-Terrorism Implementation Task Force, which was established in 2005.

International Treaties

Comprehensive Nuclear Test Ban Treaty
What is CTBT?

- It is a multilateral treaty banning all nuclear explosions for both military and civilian purposes.
- It was negotiated at the Conference on Disarmament in Geneva and adopted by the United Nations General Assembly. It was opened for signature on 24 September 1996.
- The CTBT with its 183 signatories and 163 ratifications is one of the most widely supported arms-control treaties.
- It can only enter into force after it is ratified by eight countries with nuclear technology capacity, namely China, Egypt, India, Iran, Israel, North Korea, Pakistan and the United States.
- The Treaty establishes a CTBT Organization (CTBTO), located in Vienna, to ensure the implementation of its provisions, including provisions for international verification measures.

India's stand on CTBT

- India did not support the Comprehensive Nuclear Test Ban Treaty in 1996 and still does not due to following reasons: CTBT does not address complete disarmament (supported by India), discriminatory in nature with permanent UNSC members.

- Another major concern was the Entry-Into Force (EIF) clause, which India considered a violation of its right to voluntarily withhold participation in an international treaty. The treaty initially made ratification by states that were to be a part of the CTBT's International Monitoring System (IMS) mandatory for the treaty's EIF. Because of this, India withdrew its participation from the IMS.

Treaty on the Non-Proliferation of Nuclear Weapons (NPT) 1968

- Its objective is to prevent the spread of nuclear weapons and weapons technology, to promote cooperation in the peaceful uses of nuclear energy and to further the goal of achieving nuclear disarmament and general and complete disarmament.
- India, Israel, North Korea, Pakistan and South Sudan are not parties to this treaty.

International Non-Governmental Organizations

International Non-Governmental Organizations (INGOs) have been growing both in number and influence around the world. INGOs range widely in scope, size, membership and home location. Some examples of INGOs are Amnesty International, Human Rights Watch and Medecins Sans Frontiers (MSF; also known as Doctors Without Borders). INGOs have been increasingly engaged in policy making and policy processes. Domestically INGOs have access to policy makers and work to influence policy through lobbying efforts and information campaigns. At the international scenario, INGOs often work with intergovernmental organizations and donor agencies and can have tremendous sway in certain policy domains. Recentlythe work of INGOs have been linked with their efforts to changes in trade and investment patterns and decisions in terms of humanitarian intervention, economic sanctions and aid allocation.

Until the adoption of the UN Charter in 1945, the term non-governmental organization did not exist. In the year 1910, a group of 132 organizations came together to form the Union of International Organizations. In 1929 a group of organizations that regularly attended the League meetings and formed the Federation of Private and Semi-Official International Organizations established in Geneva. When the UN Charter was finalized, the San Francisco Conference agreed to make provision for both intergovernmental organizations and private organizations to have formal relations with the ECOSOC. In terms of according status for both types of organizations, members were unwilling to give same status to the two types of international organizations. Under Article 57, a new term Specialized Agencies was introduced to define inter-governmental organizations. Under Article 71, a new second term was introduced – non-governmental organizations.

The UN is an organisation of governments of the world while the non- governmental organization represents the people of all nations of the world.

Article 71 "The Economic and Social Council may make suitable arrangements for consultation with non-governmental organizations which are concerned with matters within its competence. Such arrangements may be made with international organizations and, where appropriate, with national organizations after consultation with the Member of the United Nations concerned."

Amnesty International

Amnesty international is one of the largest international non-governmental organization that works for the rights of humans across the globe. Its work is a worldwide campaign movement that seeks to promote all human rights that are established in the Universal Declaration of Human Rights (UDHR) and other international human rights instruments. It has more than 2.2 million people as members, signatories and supporters spread across 150 countries in the world. Amnesty International was formed in London in 1961by its founder Peter Benson. In the year 1977, the Amnesty International was awarded the Nobel Peace Prize for its campaign against torture. Some of the important objectives of the Amnesty International are as follows:

- Protection of women
- Protection of children
- Ending torture and execution (barring illegal torture of people)
- Protection of prisoners of conscience (freedom of conscience, expression and the release of all prisoners of conscience)
- Protection of refugees
- Protection and overcoming the phenomenon of human rights violations that are related to his physical and psychological integrity
- Abolishing the death penalty, torture and other cruel treatment has held prisoners
- Fair (fair and fast) trials for political prisoners
- Overcoming the phenomenon of discrimination on any grounds: gender, race, religion, language, political opinion, national or social origin, and others
- Regulation of the global arms trade.

In addition to the above mentioned activities of the Amnesty International it also stands for the protections of people in zones of armed conflict, ending political killings, extra-judicial killings, disappearances, ensuring prison conditions in accordance with international human rights standards, and working against recruitment of child soldiers among others.

Human Rights Watch

The Human Rights Watch was founded in 1978 with the founding of its Europe and Central Asia Division then known as the Helsinki Watch. It is a non-profit non-governmental organization. Its staff consists of human rights professionals including country experts, lawyers, journalists and academics belonging to diverse backgrounds and nationalities. The Human Rights Watch is known for its accurate findings, impartial reporting, effective usage of media and targeted advocacy often in partnership with local human rights groups. Human Rights Watch publishes more than 100 reports on human rights practices in 90 countries across the world. The mission statement of the Human Rights watch states that "Human Rights Watch defends the rights of people worldwide. We scrupulously investigate abuses, expose the facts widely, and pressure those with power to respect rights and secure justice".

Achievements of Human Rights watch
Human Rights watch wins United Nations prize

(New York)- Human Rights Watch has won the 2008 United Nations Prize for Human Rights, in recognition of the vital role played by the Human Rights movement in trying to end abuses over the past 60 years. The award given every five years, was bestowed in New York on December 10, 2008, the 60^{th}anniversary of the Universal Declaration of Human Rights.

Human Rights Watch is an independent, international organization that works as part of a vibrant movement to uphold human dignity and advance the cause of human rights for all". It's core values are that it is guided by principles of International human rights and humanitarian law and respect for the dignity of the humanindividual. Human Rights Watch in order to maintain it independence claims that it does not accept government funds directly or indirectly or support from any private funder that could compromise its objectivity and independence. It also does not embrace any political cause and is non-partisan and strives to main neutrality in situations of armed conflict.

United Nations Human Rights Council (UNHRC)

- It is a specialized agency of United Nations to protect and promote human rights across the world set up in 2006.
- Th e Council consists of 47 members, elected yearly by the General Assembly through direct and secret ballot for three-year terms.
- Recently India was elected with highest number of votes by General Assembly to the United Nations Human Rights Council (UNHRC).
- Members are selected via the basis of equitable geographic rotation using the United Nations regional grouping system.
- Members are barred from occupying a seat for more than two consecutive three-year terms.

Human Rights Watch is committed to maintaining high standards of accuracy and fairness that includes seeking out multiple perspectives to develop and in- depth analytical understanding of events. It recognizes the particular responsibility for victims and witnesses who share their experiences with them. Th e Human Rights Watch is actively focussed on impact. Th e Human Rights Watch now has thematic divisions or programs on arms; business and human rights; children's rights;disability rights; the environment and human rights; health and human rights; international justice; lesbian, gay, bisexual, and transgender rights; refugees; terrorism and counterterrorism; women's rights; and emergencies.

Greenpeace

Greenpeace is a non-governmental environmental organization with offices in over 39 countries and an international coordinating body in Amsterdam, the Netherlands Greenpeace was founded in 1971 by Irving Stowe and Dorothy Stowe, Canadian and US ex-pat environmental activists. Greenpeace states its goal is to "ensure the ability of the Earth to nurture life in all its diversity" and focuses its campaigning on worldwide issues such as climate change, deforestation, overfishing, commercial whaling, genetic engineering, and anti-nuclear issues. It uses direct action, lobbying, research, and ecotageto achieve its goals. The global organization does not accept funding from governments, corporations, or political parties, relying on three million individual supporters and foundation grants. Greenpeace has a general consultative status with the United Nations Economic and Social Council and is a founding member of the INGO Accountability Charter, an international non-governmental organization that intends to foster accountability and transparency of non-governmental organizations. Greenpeace is known for its direct actionsand has been described as the most visible environmental organization in the world.

Conclusion

International Organizations have become an increasingly common phenomenon in international life. The proliferation of international organizations and treaty arrangements among states represents the formal expression of the extent to which international politics is becoming more and more institutionalized. In addition to the burgeoned scholarship on international organizations, in the past decade, theories have been devoted to understanding why institutions exist, how they function, what are the effects they have on world politics have become increasingly refined and the empirical methods employed for analysis more sophisticated. These and other emerging forms of analysis would help frame a new research agenda for the study on international organizations. In the coming years students will need to pay close attention to the changing patterns of international organizations' norms and practices and the broader ability of international organizations to keep step with the changes in the world and the challenges it would face.

Glossary

- The International Telecommunication Union (ITU): originally the International Telegraph Union, ITU was formed at the International Telegraph Convention, held in Paris on 17 May 1865.
- The Universal Postal Union (UPU): established by the Treaty of Bern of 1874, is a specialized agency of the United Nations (UN) that coordinates postal policies among member nations.
- International Peace Conference originally The Paris Peace Conference: also known as the Versailles Peace Conference, on 18 January 1919 of the victorious Allied Powers following the end of World War I to set the peace terms for the defeated Central Powers.
- The International Court of Justice (ICJ): sometimes called the World Court, is the principal judicial organ of the United Nations (UN).
- The Permanent Court of Arbitration (PCA): is an intergovernmental organization located at The Hague in the Netherlands.
- The League of Nations: abbreviated as LN or LoN, was an intergovernmental organisation founded on 10 January 1920 as a result of the Paris Peace Conference that ended the First World War.

- The United Nations (UN) is an intergovernmental organization tasked with maintaining international peace and security, developing friendly relations among nations.
- The Concert of Europe represented the European balance of power from 1815 to 1848.
- The International Labour Organization (ILO) was established as an agency of the League of Nations following World War I.
- The International Monetary Fund (IMF), also known as the Fund, is an international organization headquartered in Washington, D.C.
- The World Bank (WB) also known as the International Bank for Reconstruction and Development (IBRD), is an international financial institution that provides interest-free loans and grants to the governments of poorer countries for the purpose of pursuing capital projects.
- The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank that aims to support the building of infrastructure in the Asia-Pacific region.
- The Asian Development Bank (ADB) is a regional development bank established on 19 December 1966, which is headquartered in the OrtigasCenter located in the city of Mandaluyong, Metro Manila, Philippines.
- Amnesty International (commonly known as Amnesty or AI) is an non-governmental organization focused on human rights.
- Human Rights Watch (HRW) is an international non-governmental organization, founded in 1978, headquartered in New York City, that conducts research and advocacy on human rights.
- The League Council the main constitutional organs of the League of Nations were the Assembly, the Council, and the Permanent Secretariat.
- General Assembly (UNGA or GA) is one of the six principal organs of the United Nations (UN), the only one in which all member nations have equal representation.
- Munich Conference. The Conference held in Munich on September 28-29, 1938, during which the leaders of Great Britain, France, and Italy agreed to allow Germany to annex certain areas of Czechoslovakia.
- Trusteeship Council is one of the six principal organs of the United Nations, established to help ensure that trust territories were administered in the best interests of their inhabitants and of international peace and security.
- International non-governmental organization (INGO) has the same mission non-governmental organization (NGO), but it is international in scope and has outposts around the world to deal with specific issues in many countries.

12th Economis
UNIT - 6 Banking

"Commercial Banks are the institutions that make short term loans to business and in the process create Money'.'
- Culbertson

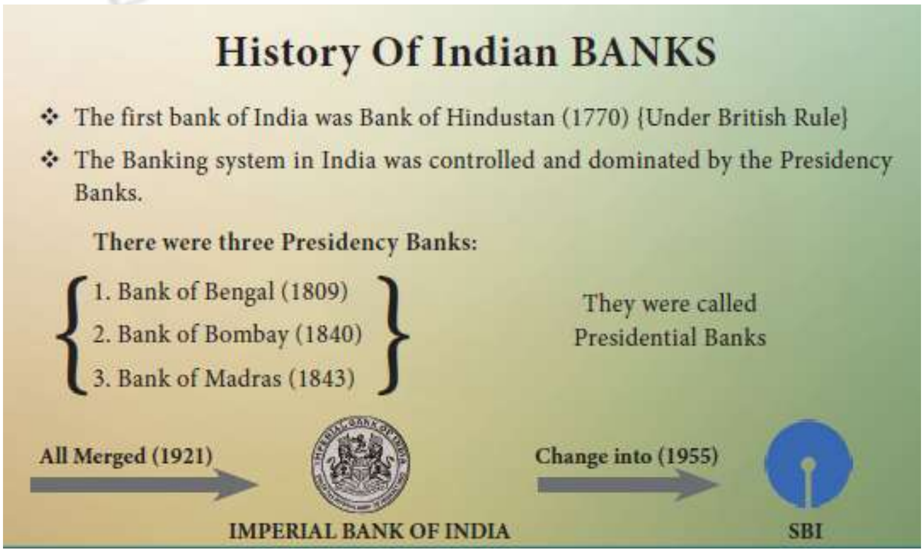
Introduction

Finance is the life blood of all economic activities such as trade, commerce, agriculture and industry. A bank is generally understood as an institution which provides fundamental financial services such as accepting deposits and lending loans. Banking sector acts as the backbone of modern business world. The banking system significantly contributes for the development of any country. Due to the importance in the financial stability of a country, banks are highly regulated in most countries.

Historical Development

The Ricks Banks of Sweden, which had sprung from a private bank established in 1656 is the oldest central bank in the world. It acquired the sole right of note issue in 1897. But the fundamentals of the art of banking have been developed by the Bank of England (1864) as the first bank of issues.

A large number of central banks were established between 1921 and 1954 in compliance with the resolution passed by the International Finance Conference held at Brussels in 1920. The South African Reserve Bank (1921), the Central Bank of China (1928), The Reserve Bank of New Zealand (1934), The Reserve Bank of India (1935), the Central Bank of Ceylon (1950) and the Bank of Israel (1954) were established.



Commercial banks

Commercial bank refers to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/ middle-sized business - as opposed to individual members of the public/small business. They do not provide, long-term credit, as liquidity of assets is to be maintained.

Functions of Commercial Banks:

Commercial banks are institutions that conduct business with profit motive by accepting public deposits and lending loans for various investment purposes.

The functions of commercial banks are broadly classified into primary functions and secondary functions, which are shown in the picture

Functions of Commercial Banks

(a) Primary Functions:

1. Accepting Deposits

It implies that commercial banks are mainly dependent on public deposits. There are two types of deposits, which are discussed as follows

i. **Demand Deposits**

It refers to deposits that can be withdrawn by individuals without any prior notice to the bank. In other words, the owners of these deposits are allowed to withdraw money anytime by writing a withdrawal slip or a cheque at the bank counter or from ATM centres using debit card.

ii. **Time Deposits**

It refers to deposits that are made for certain committed period of time. Banks pay higher interest on time deposits. These deposits can be withdrawn only after a specific time period by providing a written notice to the bank.

2. Advancing Loans

It refers to granting loans to individuals and businesses. Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange.

(b) Secondary Functions

The secondary functions can be classified under three heads, namely, agency functions, general utility functions, and other functions.

1. Agency Functions: It implies that commercial banks act as agents of customers by performing various functions.

(i) Collecting Cheques

Banks collect cheques and bills of exchange on the behalf of their customers through clearing house facilities provided by the central bank.

(ii) Collecting Income

Commercial banks collect dividends, pension, salaries, rents, and interests on investments on behalf of their customers. A credit voucher is sent to customers for information when any income is collected by the bank.

(iii) Paying Expenses

Commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school fees, and rents. Similar to credit voucher, a debit voucher is sent to customers for information when expenses are paid by the bank.

(2) General Utility Functions: It implies that commercial banks provide some utility services to customers by performing various functions.

(i) Providing Locker Facilities

Commercial banks provide locker facilities to its customers for safe custody of jewellery, shares, debentures, and other valuable items. This minimizes the risk of loss due to theft at homes. Banks are not responsible for the items in the lockers.

(ii) Issuing Traveler's Cheques

Banks issue traveler's cheques to individuals for traveling outside the country. Traveler's cheques are the safe and easy way to protect money while traveling.

(iii) Dealing in Foreign Exchange

Commercial banks help in providing foreign exchange to businessmen dealing in exports and imports. However, commercial banks need to take the permission of the Central Bank for dealing in foreign exchange.

3. Transferring Funds

It refers to transferring of funds from one bank to another. Funds are transferred by means of draft, telephonic transfer, and electronic transfer.

4. Letter of Credit

Commercial banks issue letters of credit to their customers to certify their creditworthiness.

(i) Underwriting Securities

Commercial banks also undertake the task of underwriting securities. As public has full faith in the creditworthiness of banks, public do not hesitate in buying the securities underwritten by banks.

(ii) Electronic Banking

It includes services, such as debit cards, credit cards, and Internet banking.

(C) Other Functions:

(i) Money Supply

It refers to one of the important functions of commercial banks that help in increasing money supply. For instance, a bank lends 5 lakh to an individual and opens a demand deposit in the name of that individual. Bank makes a credit entry of Rs.5 lakh in that account. This leads to creation of demand deposits in that account. The point to be noted here is that there is no payment in cash. Thus, without printing additional money, the supply of money is increased.

(ii) Credit Creation

Credit Creation means the multiplication of loans and advances.Commercial banks receive deposits from the public and use these deposits to give loans. However, loans offered are many times more than the deposits received by banks. This function of banks is known as 'Credit Creation'.

(iii) Collection of Statistics:

Banks collect and publish statistics relating to trade, commerce and industry. Hence, they advice customers and the public authorities on financial matters.

Mechanism / Technique of Credit Creation by Commercial Banks

Bank credit refers to bank loans and advances. Money is said to be created when the banks, through their lending activities, make a net addition to the total supply of money in the economy. Likewise, money is said to be destroyed when the loans are repaid by the borrowers to the banks and consequently the credit already created by the banks is wiped out in the process.

Banks have the power to expand or contract demand deposits and they exercise this power through granting more or less loans and advances and acquiring other assets. This power of commercial bank to create deposits through expanding their loans and advances is known as credit creation.

Primary / Passive Deposit and Derived / Active Deposit

The modern banks create deposits in two ways. They are primary deposit and derived deposit. When a customer gives cash to the bank and the bank creates a book debt in his name called a deposit, it is known as a "primary deposit'. But when such a deposit is created, without there being any prior payment of equivalent cash to the bank, it is called a 'derived deposit'.

Primary Deposits
• It is out of these primary deposits that the bank makes loans and advances to its customers. • The initiative is taken by the customers themselves. In this case, the role of the bank is passive. • So these deposits are also called "Passive deposits".

Credit Creation literally means the multiplication of loans and advances. Every loan creates its own deposits. Central Bank insists the banks to maintain a ratio between the total deposits they create and the cash in their possession.

For the purpose of understanding, it is assumed that all banks are obliged to keep the ratio between cash and its deposits at a minimum of 20 percent.

1. The banks do not keep any excess reserves, in other words, it would exhaust possible avenues of income earning activities like giving loans etc. up to the maximum extent after attaining the minimum cash reserves.

2. There are no drains in the supply of money i,e., the public do not suddenly want to hold more ideal currency or withdraw from the time deposits.

Under the above assumptions, when a customer deposits a sum of Rs.1000 in a bank, the bank creates a deposit of Rs. 1000 in his favor. Bank deposits (Bank Money) have increased by Rs.1000. But, at this stage, there is no increase in the total supply of money with the public, because the above extra bank money of Rs.1000 is offset by the cash of Rs.1000 deposited in the bank.

The bank has now additional cash of Rs.1000 in its custody. Since it is required to keep only a cash reserve of 20 per cent, this means that Rs. 800 is excess cash reserve with it. According to the above assumption, the bank should lend out this Rs. 800 to the public. Suppose, it does so, and the debtor deposits the money in his own account with another bank B, Bank is creating a deposit of Rs. 800. Bank B then has also excess cash reserve of Rs. 640(800-160). It could, in its turn, lend out Rs. 640. This Rs. 640 will, in its turn find its way with, say Bank C; it will create a deposit of Rs. 640and so on.

The total deposits will now grow into Rs. 1000+800+640+…….till ultimately the excess cash reserve peters out. It can be shown that when that stage is reached the total of the above will be Rs. 5000.

Money Multiplier = 1/20% =1/20/100=1/20x100=5
Credit creation is 1000x5 = Rs. 5000.

Role of Commercial Banks in Economic Development of a Country

1. **Capital Formation**

Banks play an important role in capital formation, which is essential for the economic development of a country. They mobilize the small savings of the people scattered over a wide area through their network of branches all over the country and make it available for productive purposes.

Now-a-days, banks offer very attractive schemes to induce the people to save their money with them and bring the savings mobilized to the organized money market. If the banks do not perform this function, savings either remains idle or used in creating other assets,(eg.gold) which are low in scale of plan priorities.

2. **Creation of Credit**

Banks create credit for the purpose of providing more funds for development projects. Credit creation leads to increased production, employment, sales and prices and thereby they bring about faster economic development.

3. **Channelizing the Funds towards Productive Investment**

Banks invest the savings mobilized by them for productive purposes. Capital formation is not the only function of commercial banks. Pooled savings should be allocated to various sectors of the economy with a view to increase the productivity. Then only it can be said to have performed an important role in the economic development.

4. **Encouraging Right Type of Industries**

Many banks help in the development of the right type of industries by extending loan to right type of persons. In this way, they help not only for industrialization of the country but also for the economic development of the country. They grant loans and advances to manufacturers whose products are in great demand. The manufacturers in turn increase their products by introducing new methods of production and assist in raising the national income of the country. Sometimes, sub-prime lending is also clone. That is how there was an economic crisis in the year 2007-08 in the US.

5. **Banks Monetize Debt**

Commercial banks transform the loan to be repaid after a certain period into cash, which can be immediately used for business activities. Manufacturers and wholesale traders cannot increase their sales without selling goods on credit basis. But credit sales may lead to locking up of capital. As a result, production may also be reduced. As banks are lending money by discounting bills of exchange, business concerns are able to carryout the economic activities without any interruption.

6. **Finance to Government**

Government is acting as the promoter of industries in underdeveloped countries for which finance is needed for it. Banks provide long-term credit to Government by investing their funds in Government securities and short-term finance by purchasing Treasury Bills. RBI has given Rs. 68,000 crores to the government of India in the year 2018-19, this is 99% the RBI's surplus.

7. **Employment Generation**

After the nationalization of big banks, banking industry has grown to a great extent. Bank's branches are opened frequently, which leads to the creation of new employment opportunities.

8. **Banks Promote Entrepreneurship**

In recent days, banks have assumed the role of developing entrepreneurship particularly in developing countries like India by inducing new entrepreneurs to take up the well-formulated projects and provision of counseling services like technical and managerial guidance. Banks provide 100% credit for worthwhile projects, which is also technically feasible and economically viable. Thus commercial banks help for the development of entrepreneurship in the country.

Non-Banking Financial Institution (NBFI)

A non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by the central bank.

The NBFIs do not carry on pure banking business, but they will carry on other financial transactions. They receive deposits and give loans. They mobilize people's savings and use the funds to finance expenditure on investment activities. In short, they are institutions which undertake borrowing and lending. They operate in both the money and the capital markets.

NBFIs can be broadly classified into two categories. Viz.., (1) Stock Exchange; and (2) Other Financial institutions. Under the latter category comes Finance Companies, Finance

Corporations, ChitFunds, Building Societies, Issue Houses, Investment Trusts and Unit Trusts and Insurance Companies.

Central Bank

A central bank, reserve bank, or monetary authority is an institution that manages a state's currency, money supply, and interest rates. Central banks also usually oversee the commercial banking system of their respective countries.

Functions of Central Bank (Reserve Bank of India)

The Reserve Bank of India (RBI) is India's central banking institution, which controls the monetary policy of the Indian rupee. It commenced its operations on 1 April 1935 in accordance with the Reserve Bank of India Act, 1934. The original share capital was divided into shares of Rs.100 each fully paid, which were initially owned entirely by private shareholders. Following India's independence on 15 August 1947, the RBI was nationalised on 1 January 1949.

1. **Monetary Authority:** It controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system.

2. **The issuer of currency:** The objective is to maintain the currency and credit system of the country. It is the sole authority to issue currency. It also takes action to control the circulation of fake currency.

3. **The issuer of Banking License:** As per Sec 22 of Banking Regulation Act, every bank has to obtain a banking license from RBI to conduct banking business in India.

RESERVE BANK OF INDIA		
History	**Administration**	**Functions**
• Formed on April 1, 1935 in accordance with the RBI Act, 1934 • Nationalized on January 1, 1949 (Fully owned by GOI) • Headquarter moved from Calcutta to Mumbai in 1937 • Osborne Smith was the firstGovernor of RBI	• It is the Central Bank/ Regulator for all bank in India • Also called "Lender of Last Resort" • Governors and 4 Deputy Governors along with a central board of directors appointed by the GOI.	• Issues currency • Banker to the government {It collects receipts of funds and makes payments on behalf of the government} • Regulator of Indian Banking system • Custodian of Forex • Controller of credit

The process of issuing paper currency was started in the 18th century. Private Banks such as the bank of Bengal the bank of Bombay and the Bank of Madras – first printed paper money.

The first rupee was introduced by Sher Shah Suri based on a ratio of 40 copper pieces (paisa) per rupee. The name was derived from the Sanskrit word Raupya, meaning silver. Each banknote has its amount written in 17languages (English and Hindi on the front and 15 other on the back) illustrating the diversity of the country.

4. **Banker to the Government:** It acts as banker both to the central and the state governments. It provides short-term credit. It manages all new issues of government loans, servicing the government debt outstanding and nurturing the market for government securities. It advises the government on banking and financial subjects.

5. **Banker's Bank:** RBI is the bank of all banks in India as it provides loan to banks, accept the deposit of banks, and rediscount the bills of banks.

6. **Lender of last resort:** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis, when there is no other source.

7. **Act as clearing house:** For settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.

8. **Custodian of foreign exchange reserves:** It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.

9. **Regulator of Economy:** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.

10. **Managing Government securities:** RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.

11. **Regulator and Supervisor of Payment and Settlement Systems:** The Payment and Settlement Systems Act of 2007 (PSS Act) gives RBI oversight authority for the payment and settlement systems in the country. RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.

12. **Developmental Role:** This role includes the development of the quality banking system in India and ensuring that credit is available to the productive sectors of the economy. It provides a wide range of promotional functions to support national objectives. It also includes establishing institutions designed to build the country's financial infrastructure. It also helps in expanding access to affordable financial services and promoting financial education and literacy.

13. **Publisher of monetary data and other data:** RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. RBI collects, collates and publishes data regularly.

14. **Exchange manager and controller:** RBI represents India as a member of the International Monetary Fund [IMF]. Most of the commercial banks are authorized dealers of RBI.

15. **Banking Ombudsman Scheme:** RBI introduced the Banking Ombudsman Scheme in 1995. Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the Ombudsman against the awards and the other decisions of the Banks.

16. **Banking Codes and Standards Board of India:** To measure the performance of banks against Codes and standards based on established global practices, the RBI has set up the Banking Codes and Standards Board of India (BCSBI).

Credit Control Measures

Credit control is the primary mechanism available to the Central banks to realize the objectives of monetary management. The RBI is much better placed than many of credit control. The statutory basis for the control of the credit system by the Reserve Bank is embodied in the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949.

Credit Control Measures	
General (Quantitative)	**Selective (Quantitative)**
1. Bank Rate 2. Open Market Operations 3. Variable Cash Reserve Ratio	1. Rationing of Credit 2. Direct Action 3. Moral suasion 4. Publicity 5. Regulation of Consumer' Credit 6. Marginal Requirements

Methods of Credit Control

I. Quantitative or General Methods:

1. Bank Rate Policy:

The bank rate is the rate at which the Central Bank of a country is prepared to re-discount the first class securities. It means the bank is prepared to advance loans on approved securities to its member banks. As the Central Bank is only the lender of the last resort the bank rate is normally higher than the market rate. For example: If the Central Bank wants to control credit, it will raise the bank rate. As a result, the deposit rate and other lending rates in the money-market will go up. Borrowing will be discouraged, and will lead to contraction of credit and vice versa.

2. Open Market Operations:

In narrow sense, the Central Bank starts the purchase and sale of Government securities in the money market.

In Broad Sense, the Central Bank purchases and sells not only Government securities but also other proper eligible securities like bills and securities of private concerns. When the banks and the private individuals purchase these securities they have to make payments for these securities to the Central Bank.

3. Variable Reserve Ratio:

a) Cash Reserves Ratio:

Under this system the Central Bank controls credit by changing the Cash Reserves Ratio. For example, if the Commercial Banks have excessive cash reserves on the basis of which they are creating too much of credit, this will be harmful for the larger interest of the economy. So it will raise the cash reserve ratio which the Commercial Banks are required to maintain with the Central Bank.

Similarly, when the Central Bank desires that the Commercial Banks should increase the volume of credit in order to bring about an economic revival in the economy. The central Bank will lower down the Cash Reserve Ratio with a view to expand the lending capacity of the Commercial Banks.

Variable Cash Reserve Ratio as an objective of monetary policy was first suggested by J.M. Keynes. It was first followed by Federal Reserve System in United States of America. The commercial banks as per the statute has to maintain reserves based on their demand deposit and fixed deposit with central bank is called as Cash Reserve Ratio.

If the CRR is high, the commercial bank's capacity to create credit will be less and if the CRR is low, the commercial bank's capacity to create credit will be high.

b) Statutory Liquidity Ratio:

Statutory Liquidity Ratio (SLR) is the amount which a bank has to maintain in the form of cash, gold or approved securities. The quantum is specified as some percentage of the total demand and time liabilities (i.e., the liabilities of the bank which are payable on demand anytime, and those liabilities which are accruing in one month's time due to maturity) of a bank.

II. Qualitative or Selective Method of Credit Control:

The qualitative or the selective methods are directed towards the diversion of credit into particular uses or channels in the economy. Their objective is mainly to control and regulate the flow of credit into particular industries or businesses. The following are the frequent methods of credit control under selective method:

1. Rationing of Credit
2. Direct Action
3. Moral Persuasion
4. Method of Publicity
5. Regulation of Consumer's Credit
6. Regulating the Marginal Requirements on Security Loans

1. Rationing of Credit

This is the oldest method of credit control. Rationing of credit as an instrument of credit control was first used by the Bank of England by the end of the 18th Century. It aims to control and regulate the purposes for which credit is granted by commercial banks. It is generally of two types.

a) The variable portfolio ceiling: It refers to the system by which the central bank fixes ceiling or maximum amount of loans and advances for every commercial bank.

b) The variable capital asset ratio: It refers to the system by which the central bank fixes the ratio which the capital of the commercial bank should have to the total assets of the bank.

2. Direct Action

Direct action against the erring banks can take the following forms.
a) The central bank may refuse to altogether grant discounting facilities to such banks.
b) The central bank may refuse to sanction further financial accommodation to a bank whose existing borrowing are found to be in excess of its capital and reserves.
c) The central bank may start charging penal rate of interest on money borrowed by a bank beyond the prescribed limit.

3. Moral Suasion

This method is frequently adopted by the Central Bank to exercise control over the Commercial Banks. Under this method Central Bank gives advice, then requests. and persuades the Commercial Banks to co-operate with the Central Bank in implementing its credit policies.

4. Publicity

Central Bank in order to make their policies successful, take the course of the medium of publicity. A policy can be effectively successful only when an effective public opinion is created in its favour.

5. Regulation of Consumer's Credit:

The down payment is raised and the number of installments reduced for the credit sale.

6. Changes in the Marginal Requirements on Security Loans:

This system is mostly followed inU.S.A. Under this system, the Board of Governors of the Federal Reserve System has been given the power to prescribe margin requirements for the purpose of preventing an excessive use of credit for stock exchange speculation.

This system is specially intended to help the Central Bank in controlling the volume of credit used for speculation in securities under the Securities Exchange Act, 1934.

<table>
<tr><td colspan="2">The Repo Rate and the Reverse Repo Rate are the frequently used tools with which the RBI can control the availability and the supply of money in the economy. RR is always greater than RRR in India</td></tr>
<tr><td>Repo Rate: (RR)</td><td>Reverse Repo Rate (RRR)</td></tr>
<tr><td>The rate at which the RBI is willing to lend to commercial banks is called Repo Rate. Whenever banks have any shortage of funds they can borrow from the RBI, against securities. If the RBI increases the Repo Rate, it makes borrowing expensive for banks and vice versa. As a tool to control inflation, RBI increases the Repo Rate, making it more expensive for the banks to borrow from the RBI. Similarly, the RBI will do the exact opposite in a deflationary environment.</td><td>The rate at which the RBI is willing to borrow from the commercial banks is called reverse repo rate. If the RBI increases the reverse repo rate, it means that the RBI is willing to offer lucrative interest rate to banks to park their money with the RBI. This results in a decrease in the amount of money available for banks customers as banks prefer to park their money with the RBI as it involves higher safety. This naturally leads to a higher rate of interest which the banks will demand from their customers for lending money to them.</td></tr>
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Reserve Bank of India and Rural Credit

In a developing economy like India, the Central bank of the country cannot confine itself to the monetary regulation only, and it is expected that it should take part in development function in all sectors especially in the agriculture and industry.

Role of RBI in agricultural credit

RBI has been playing a very vital role in the provision of agricultural finance in the country. The Bank's responsibility in this field had been increased due to the predominance of agriculture in the Indian economy and the inadequacy of the formal agencies to cater to the huge requirements of the sector. In order to fulfill this important role effectively, the RBI set up a separate Agriculture Credit Department. However, the volume of informal loans has not declined sufficiently.

Functions of Agriculture Credit Department:

a. To maintain an expert staff to study all questions on agricultural credit;

b. To provide expert advice to Central and State Government, State Co-operative Banks and other banking activities.
c. To finance the rural sector through eligible institutions engaged in the business of agricultural credit and to co-ordinate their activities.

The duties of the RBI in agricultural credit were much restricted as it had to function only in an ex-officio capacity being the Central Bank of the country. It could not lend directly to the farmers, but the supply of rural credit was done through the mechanism of refinance with institutions specializing in rural credit. Primary societies may borrow from Central Co-operative Bank, and the latter may borrow from the apex or the State Co-operative Bank, which in its turn might get accommodation facilities from the RBI.

The RBI was providing medium-term loans also for a period exceeding 15 months to 5 years for reclamation of land, construction of irrigation works, purchase of machinery, etc.

The Reserve Bank of India was also providing long-term loans to fiancé permanent changes in land and also for the redemption of old debts.

With the establishment of National Bank for Agriculture and Rural Development (NABARD), all the functions of the RBIrelating to agricultural credit had been taken over and looked after by NABARD since 1982. Since then, all activities relating to rural credit are entirely looked after by NABARD.

The Agricultural Refinance Development Corporation (ARDC)

Farmers in India require mainly medium term and long term loans and they face a lot of difficulties in getting them. The only organization providing long term credit is Land Development Banks which have lagged behind and recorded only limited success. The credit requirements of the agricultural sector are increasing year after year. With the aim of bridging the gap in agricultural finance and to extend credit for projects involving agricultural development, an organization called the Agricultural Refinance Development Corporation (ARDC) was established by an Act of Parliament and it started functioning from July 1, 1963.

Objectives of the ARDC:

i. To provide necessary funds by way of refinance to eligible institutions such as the Central Land Development Banks, State Co-operative Banks, and Scheduled banks.
ii. To subscribe to the debentures floated by the Central Land Development banks, State Co-operative Banks, and Scheduled banks, provided they were approved by the RBI.

Regional Rural Banks (RRBs)

One of the important points of the 20 points economic programme of Mrs. Indira Gandhi during emergency was the liquidation of rural indebtedness by stages and provide institutional credit to farmers and artisans in rural areas. It was in pursuance of this aspect of the New Economic programme that the Government of India setup Regional Rural Banks (RRBs) on

1975. The share capital of RRB is subscribed by the Central Government (50%), the State Government concerned (15%), and the sponsoring commercial bank (35%).

The main objective of the RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs so as to develop agriculture, trade, commerce, industry and other productive activities in the rural areas.

Concessions to RRBs

From the beginning, the sponsor banks have continued to provide managerial and financial assistance to RRBs and also other concessions such as lower rate of interest (8.5 per cent) on the latter's borrowings from sponsor banks. Further, the cost of staff deputed to RRBs and training expenses of RRB staff are borne by the sponsor banks.

The RBI has been granting many concessions to RRBs:

a. They are allowed to maintain cash reserve ratio at 3 per cent and statutory liquidity ratio at 25 per cent; and

b. They also provide refinance facilities through NABARD.

NABARD and its role in Agricultural credit

Since its inception, RBI has shown keen interest in agricultural credit and maintained a separate department for this purpose. RBI extended short-term seasonal credit as well as medium-term and long-term credit to agriculture through State level co-operative banks and Land Development banks.

NABARD

↓

State Cooperative Bank

↓

Central Cooperative Bank

↓

Primary Cooperative Society

Three Tier Cooperative Credit Structure

At the same time, RBI has also set up the Agricultural Refinance Development Corporation (ARDC) to provide refinance support to the banks to promote programmes of agricultural development, particularly those requiring term credit. With the widening of the role of bank credit from "agricultural development" to "rural development" the Government proposed to have a more broad-based organization at the apex level to extend support and give guidance to credit institutions in matters relating to the formulation and implementation of rural development programmes.

A National Bank for Agriculture and Rural Development (NABARD), was therefore, set up in July 1982 by an Act of parliament to take over the functions of ARDC and the refinancing functions of RBI in relation to co-operative banks and RRBs. NABARD is linked organically with the RBI by the latter contributing half of its share capital the other half being contributed by the Government of India(GOI). GOI nominates three of its Central Board Directors on the board of NABARD.A Deputy Governor of RBI is appointed as Chairman of NABARD.

Functions of NABARD

NABARD has inherited its apex role from RBI i.e, it is performing all the functions performed by RBI with regard to agricultural credit.

i. NABARD acts as a refinancing institution for all kinds of production and investment credit to agriculture, small-scale industries, cottage and village industries, handicrafts and rural crafts and real artisans and other allied economic activities with a view to promoting integrated rural development.

ii. It provides short-term, medium-term and long-term credits to state co-operative Banks (SCBs), RRBs, LDBs and other financial institutions approved by RBI.

iii. NABARD gives long-term loans (upto 20 Years) to State Government to enable them to subscribe to the share capital of co-operative credit societies.

iv. NABARD gives long-term loans to any institution approved by the Central Government or contribute to the share capital or invests in securities of any institution concerned with agriculture and rural development.

v. NABARD has the responsibility of co-ordinating the activities of Central and State Governments, the Planning Commission (now NITI Aayog) and other all India and State level institutions entrusted with the development of small scale industries, village and cottage industries, rural crafts, industries in the tiny and decentralized sectors, etc.

vi. It has the responsibility to inspect RRBs and co-operative banks, other than primary co-operative societies.

vii. It maintains a Research and Development Fund to promote research in agriculture and rural development

Reserve bank of India and industrial finance

Though industries get finance from commercial banks, the quantum and the term will be very much limited generally. Commercial banks lend for short term only, as they get only short-term deposits from the public. Further lending to industries is only a fragment of the total lending by the banks.

Hence, there is a need and urgency of establishing long-term credit facilities to industries. The institutional set-up in India for financing in India for financing and promoting industries are as follows

All-India Level Institutions:

1. Industrial Finance Corporation of India (IFCI)

This was first in the chain of establishment of financial corporations to provide financial assistance for industrial development. This was established on July 1, 1948 under the Act of the Parliament. IFCI provides assistance to the industrial concerns in the following ways:

i) Long-term loans; both in rupees and foreign currencies.
ii) Underwriting of equity, preference and debenture issues.
iii) Subscribing to equity, preference and debenture issues.
iv) Guaranteeing the deferred payments in respect of machinery imported from abroad or purchased in India; and
v) Guaranteeing of loans raised in foreign currency from foreign financial institutions.

Financial assistance of IFCI can be availed by any Limited Company in the public, private or joint sector, or by a co-operative society incorporated in India, which is engaged or proposes to be engaged in the specified industrial activities. Such financial assistance will be available for the setting up of new industrial projects and also for the expansion diversification, renovation or modernisation of existing ones.The IFCI also provides financial assistance on concessional terms for setting up industrial projects in industrially less developed districts in the States or Union Territories notified by the Central Government,

The IFCI raises its resources by way of (a) issue of bonds in the market; (b) borrowing from Industrial Development Bank of India and the Central Government; (c) foreign credit secured from foreign financial institutions and borrowings in the international capital markets.

3. Industrial Credit and Investment Corporation of India (ICICI)

Functions of ICICI

- Assistance to industries
- Provision of foreign currency loans
- Merchant banking
- Letter of credit
- Project promotion
- Housing loans
- Leasing operations

This was set up on 5th January 1955 as a joint-stock company on the advice given by a three-man mission sponsored by the World Bank and The Government of USA to the Government of India. The principal purpose of this institution is to channelize the World Bank funds to industry in India and also to help build up a capital market. Initially the capitalof ICICI was held by private companies, institutions and individuals. But now, a very large part of its equity capital is held by public sector institutions, such as banks, LIC, GIC and its subsidiaries, as ‘this private institution was nationalized.

The significant feature of the operations of ICICI is the foreign currency loans sanctioned by this institution to industries. Since its inception, nearly 50 per cent of its disbursement had been in foreign currencies. This is possible because of the facility it enjoys of raising funds in foreign currencies. The World Bank has been the single largest source of such funds. Since 1973, the ICICI has entered the international capital markets also for raising foreign currency loans.

The major portion of its rupee resources is raised by way of debentures in the capital market. The ICICI also borrows from the Industrial Development Bank of India and the Government. The major portion of its assistance has gone to the private sector.

Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India has been conceived with the primary object of creating an apex institution to co-ordinate the activities of other financial institutions, including banks. The Development Bank was a wholly owned subsidiary of the Reserve Bank of India upto February 15, 1976. It was delinked from the RBI with effect from February 16, 1976 and made an autonomous corporation fully owned by the Government of India.

Functions of IDBI: The functions of IDBI fall into two groups (i) Assistance to other financial institutions; and (ii) Direct assistance to industrial concerns either on its own or in participation with other institutions. The IDBI can provide refinance in respect of term loans to industrial concerns given by the IFC, the SFCs, other financial institutions notified by the Government, scheduled banks and state cooperative banks.

A special feature of the IDBI is the provision for the creation of a special fund known as the Development Assistance Fund. The fund is intended to provide assistance to industries which require heavy investments with low anticipated rate of return. Such industries may not be able to get assistance in the normal course. The financing of exports was also undertaken by the IDBI till the establishment of EXIM BANK in March, 1982.

State Level Institutions

1. State Financial Corporation (SFCs)

The government of India passed in 1951 the State Financial Corporations Act and SFCs were set up in many states. TheSFCs are mainly intended for the development of small and medium industrial units within their respective states. However, in some cases they extend to neighbouring states as well.

The SFCs provide loans and underwriting assistance to industrial units having paid-up capital and reserves not exceeding Rs. 1 crore. The maximum amount that can be sanctioned to an industrial concern by SFC is Rs. 60 lakhs.

SFCs depend upon the IDBI for refinance in respect of the term loans granted by them. Apart from these, the SFCs can also make temporary borrowings from the RBI and borrowings from IDBI and by the sale of bonds.

State Industrial Development Corporations (SIDCOs)

The Industrial Development Corporations have been set up by the state governments and they are wholly owned by them. These institutions are not merely financing agencies; they are entrusted with the responsibility of accelerating the industrialization of their states.

SIDCOs provide financial assistance to industrial concerns by way of loans guarantees and underwriting of or direct subscriptions to shares and debentures. In addition to these, they undertake various promotional activities, such as conducting techno-economic surveys, project identification, preparation of feasibility studies and selection and training of entrepreneurs. They also promote joint sector projects in association with private promoter in such type of projects. SIDCOs take 26 percent, private co-promoter takes 25 percent of the equity, and the rest is offered to the investing public. SIDCOs undertake the development of industrial areas by providing all infrastructural facilities and initiation of new growth centers. They also administer various State government incentive schemes. SIDCOs get refinance facilities form IDBI. They also borrow through bonds and accept deposits.

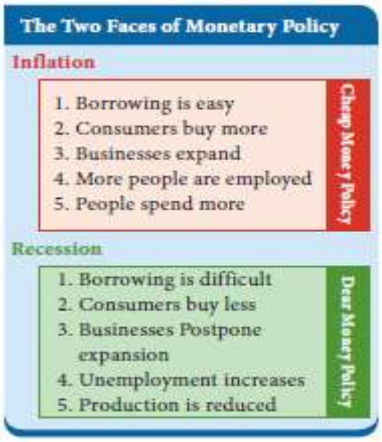
Monetary Policy

Monetary Policy is the macroeconomic policy being laid down by the Central Bank towards the management of money supply and interest rate. It is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity. The monetary policy gained its significance after the World War II, thanks to the initiation made by Milton Friedman, who is associated with the doctrine of “monetarism” and who received Nobel Prize in 1976. He boldly announced in his book “Monetary History of the UnitedStates, 1867 – 1960” that the Great Depression of the 1930’s was largely the outcome of the bungling monetary policies of the Federal Reserve System.

Monetary Policy: Expansionary Vs. Contractionary

Expansionary policy is cheap money policy when a monetary authority uses its tools to stimulate the economy. An expansionary policy maintains short-term interest rates at a lower than usual rate or increases the total supply of money in the economy more rapidly than usual. It is traditionally used to try to combat unemployment by lowering interest rates in the hope that less expensive credit will entice businesses into expanding. This increases aggregate demand (the overall demand for all goods and services in an economy), which boosts short-term growth as measured by gross domestic product (GDP) growth.

The Contractionary monetary policy is dear money policy, which maintains short-term interest rates higher than usual or which slows the rate of growth in the money supply or even shrinks it. This slows short-term economic growth and lessens inflation. Contractionary monetary policy can lead to increased unemployment and depressed borrowing and spending by consumers and businesses, which can eventually result in an economic recession if implemented too vigorously.



Objectives of Monetary Policy

The monetary policy in developed economies has to serve the function of stabilization and maintaining proper equilibrium in the economic system. But in case of underdeveloped countries, the monetary policy has to be more dynamic so as to meet the requirements of an expanding economy by creating suitable conditions for economic progress. It is now widely recognized that monetary policy can be a powerful tool of economic transformation.

The specific objectives of monetary policy are

1. Neutrality of Money
2. Stability of Exchange Rates
3. Price Stability
4. Full Employment
5. Economic Growth
6. Equilibrium in the Balance of Payments

1. Neutrality of Money

Economists like Wicksteed, Hayek and Robertson are the chief exponents of neutral money. They hold the view that monetary authority should aim at neutrality of money in the economy. Monetary changes could be the root cause of all economic fluctuations. According to neutralists, the monetary change causes distortion and disturbances in the proper operation of the economic system of the country.

2. Exchange Rate Stability

Exchange rate stability was the traditional objective of monetary authority. This was the main objective under Gold Standard among different countries. When there was disequilibrium in the balance of payments of the country, it was automatically corrected by movements. It was popularly known as "Expand Currency and Credit when gold is coming in; contract currency and credit when gold is going out." This system will correct the disequilibrium in the balance of payments and exchange rate stability will be maintained.

It must be noted that if there is instability in the exchange rates, it would result in outflow or inflow of gold resulting in unfavorable balance of payments. Therefore, stable exchange rates are advocated.

3. Price Stability

Economists like Crustave Cassel and Keynes suggested price stabilization as a main objective of monetary policy. Price stability is considered the most genuine objective of monetary policy. Stable prices repose public confidence. It promotes business activity and ensures equitable distribution of income and wealth. As a consequence, there is general wave of prosperity and welfare in the community.

But it is admitted that price stability does not mean 'price rigidity' or price stagnation'. A mild increase in the price level provides a tonic for economic growth. It keeps all virtues of a stable price.

4. Full Employment

During world depression, the problem of unemployment had increased rapidly. It was regarded as socially dangerous, economically wasteful and morally deplorable. Thus, full employment was considered as the main goal of monetary policy. With the publication of Keynes' General Theory of Employment, Interest and Money in 1936, the objective of full employment gained full support as the chief objective of monetary policy.

5. Economic Growth

Economic growth is the process whereby the real per capita income of a country increases over a long period of time. It implies an increase in the total physical or real output, production of goods for the satisfaction of human wants.

Therefore, monetary policy should promote sustained and continuous economic growth by maintaining equilibrium between the total demand for money and total production capacity and further creating favourable conditions for saving and investment. For bringing equality between demand and supply, flexible monetary policy is the best course.

6. Equilibrium in the Balance of Payments

Equilibrium in the balance of payments is another objective of monetary policy which emerged significant in the post war years. This is simply due to the problem of international liquidity on account of the growth of world trade at a more faster speed than the world liquidity.

It was felt that increasing of deficit in the balance of payments reduces the ability of an economy to achieve other objectives. As a result, many less developed countries have to curtail their imports which adversely affects development activities. Therefore, monetary authority makes efforts to maintain equilibrium in the balance of payments.

Recent Advancements in Banking Sector

E- Banking

Online banking, also known as internet banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website. The online banking system typically connects to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.

Today, "virtual banks" (or "direct banks") have only an internet presence, which enables them to lower costs than traditional brick-and-mortar banks.

RTGS and NEFT

Inter Bank Transfer enables electronic transfer of funds from the account of the remitter in one Bank to the account of the beneficiary maintained with any other Bank branch. There are two systems of Inter Bank Transfer - RTGS and NEFT. Both these systems are maintained by RBI. NEFT operates in half hourly batches. Currently there are twenty three settlements from 8 am to 7 pm on all working days including working Saturdays. Therefore, the beneficiary can expect to get the credit for the transactions put through between 8 am to 5.30 pm on all working days including working Saturdays on the same day.
For transactions settled in the 6.30 and 7 pm batches on all working days including working Saturdays, the credit will be afforded either on the same day or on the next working day.

NEFT	RTGS
National electronic Fund Transfer	Real Time Gross Settlement
Transactions happens in batches hence slow	Transactions Happens in real time hence fast
Timings : 8:00 am to 6:30 pm (12: 30 pm on Saturday)	Timings : 9:00 am to 4:30 pm (1:30 pm on Saturday)
No minimum limit	Minimum amount for RTGS transfer is ☐ 2 lakhs

ATM (Automated Teller Machine)

ATMs transformed the bank tech system when they were first introduced in 1967. The next revolution in ATMs is likely to involve contactless payments. Much like Apple Pay or Google Wallet, soon we will be able to conduct contactless ATM transactions using a smartphone. Some ATM innovations are already available overseas. For example, biometric authentication is already used in India, and its recognition is in place at QatarNational Bank ATMs. These technologies can help overall bank security by protecting against ATM hacks.

Paytm

Payments Bank. In August 2015, Paytm received a license from RBI to launch a payments bank. The Paytm Payments Bank is a separate entity in which founder Vijay Shekhar Sharma will hold 51% share, One97 Communications holds 39% and 10% will be held by a subsidiary of One97 and Sharma.

Debit card and Credit Card

A Debit card is a card allowing the holder to transfer money electronically from their bank account when making a purchase.

A credit card is a payment card issued to users (cardholders) to enable the cardholder to pay a merchant for goods and services based on the cardholder's promise to the card issuer to pay them for the amounts so paid plus the other agreed charges. The card issuer (usually a bank) creates a revolving account and grants a line of credit to the cardholder, from which the cardholder can borrow money for payment to a merchant or as a cash advance. In other words, credit cards combine payment services with extensions of credit. Complex fee structures in the credit card industry may limit customers' ability to shopping.

Recent Issues

Once the borrower fails to make interest or principal payments for 90 days the loan is considered to be a non- performing asset (NPA). NPAs are problematic for financial institutions since they depend on interest payments for income. As on now the size of NPAs is estimated to be around 10 lakh crores. As a result, the banks do not have adequate capital. Hence the Government (of India) is forced to infuse capital to the banks by using poor tax – payers money. Already more than a sum of Rs. 2 lakh crores have been injected. During 2018 - 19, the GOI has infused Rs. 68,000 crores into the banking system. Thus the NPAs ultimately affect the common people.

Merger of Banks

Union Cabinet decided to merge all the remaining five associate banks of State Bank Group with State Bank of India in 2017. After the Parliament passed the merger Bill, the subsidiary banks have ceased to exist.

Five associates and the BharatiyaMahila Bank have become the part of State Bank of India (SBI) beginning April 1, 2017. This has placed State Bank of India among the top 50 banks in the world. The five associate banks that were merged are State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT). The other two Associate Banks namely State Bank of Indore and State Bank of Saurashtra had already been merged with State Bank of India. After the merger, the total customer base of SBI increased to 37 crore with a branch network of around 24,000 and around 60,000 ATMs across the country.

Money Market

Money market is the mechanism through which sthort term funds are loaned and borrowed. It designates financial instittutions which handle the purchase, sale and transfer of short term credit instruments. Commercial banks, acceptance houses, Non Banking Financial Institutions and the Central Bank are the institutions catering to the requirements of short term funds in the money Market.

Capital Market

Capital Market is a part of financial system which is concerned with raising capital by dealing in shares, bonds and other long term investments.

The market where investment instruments like bonds, equities and mortgages are traded is known as the capital market

Demonisation

Demonitisation is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation, often to bereplaced with new coins or notes. On 8 November 2016, the Indian Prime Minister Mr. Narendra Modi announced the demonetization of all Rs. 500 and Rs. 1000 bank notes of the Mahatma Gandhi Series. However, more than 99% of those currencies came back to the RBI.

Objectives of Demonetisation

1. Removing Black Money from the country.
2. Stopping of Corruption.
3. Stopping Terror Funds.
4. Curbing Fake Notes