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Series : Bretton Woods, the World Bank and the IMF: 70th
anniversary (Part 3)

Early conflicts between the UN and the World Bank/IMF tandem

- Features -

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The World Bank and the IMF are specialized institutions of the UN, comparable in theory to the International Labour Organization (ILA) or the Food and Agriculture Organization of the United Nations (FAO). As such, they are supposed to cooperate closely with the various UN bodies and the other specialized institutions to achieve the objectives set out in the Charter and in the Universal Declaration of Human Rights.

From the outset, the World Bank and the IMF attempted to extricate themselves to a large extent from the obligations that bind member organizations of the United Nations system. In the case of the Bank, while its development aid mission should have led it to seek a rapprochement with the UN, its directors consistently managed to place the Bank outside the UN's sphere of authority. The Bank and the IMF were instrumental in heightening the Cold War, and later, in playing on the reactions of leaders in the most industrialized countries to the growing influence of developing countries calling for a new world economic order. The World Bank and the IMF violated the UN charter and several of its resolutions by supporting the colonial policies of the Portuguese dictator, Salazar, and the apartheid regime in South Africa.

In March 1946, on the occasion of the first meeting of the governors of the World Bank and the IMF, the president of the Economic and Social Council of the United Nations [1] (known by the acronym ECOSOC) handed a letter to the directors of the World Bank asking it to set up liaison facilities with its organization. The Bank postponed discussion of this issue until the executive directors' meeting to be held in May 1946. In fact, the Bank dragged its feet so successfully that it was only in November 1947 that an agreement between the two parties was found. According to Mason and Asher, the Bank's historians, the negotiations were not particularly cordial [2]. The first letter from ECOSOC having gone unanswered, a second letter was sent, to which the executive directors of the Bank replied that, in their view, a meeting on the subject would be premature. Meanwhile, the United Nations had already signed cooperation agreements with the International Labour Organization, UNESCO and the FAO.

In July 1946 a third attempt was made when the UN Secretary General proposed that the Bank and the IMF begin negotiations in September 1946. The directors of the IMF and the World Bank subsequently met and decided that such a meeting was still not timely. This is what Mason and Asher had to say about these stalling tactics: "The Bank was very fearful that becoming a specialized agency of the UN would subject it to undesirable political control or influence and hurt its credit rating in Wall Street ..." [3]. The Bank finally adopted a draft text to be submitted for discussion with the United Nations; this text was more a declaration of independence than a declaration of cooperation. Then followed a day of discussions at UN headquarters, during which the Bank's president, John J. McCloy, agreed to exercise a little more moderation.

The resulting agreement was accepted by ECOSOC's negotiating committee, but it raised a furore within ECOSOC itself and at its General Assembly. During ECOSOC's 1947 session, the Soviet Union delegate described the draft agreement as a flagrant violation of at least four articles of the UN Charter. Even more embarrassing for the Bank's directors, and obliquely, for the United States, was the attack led by the delegate from Norway (the native country of the current UN secretary general, Trygve Lie). He declared that Norway could not tolerate such privileges being granted to the Bank and the IMF, because it would undermine UN authority. To which the United States delegate retorted that nothing would undermine UN authority more than the impossibility of its coming to an agreement with the Bank and the IMF. Finally, ECOSOC adopted (13 for, 3 against and 2 abstentions) the draft text which was ratified in September 1947 by the Bank's governing council (the governor representing Yugoslavia abstained). The agreement was approved by the UN General Assembly in November 1947.

This agreement ratified the Bank's status as a UN specialized agency, but, at the Bank's request, allowed it to

operate as an "independent international organization". Following the same line, it authorized the Bank to use its own judgment as to what information could be usefully communicated to ECOSOC, which constituted a departure from article 17, paragraph 3 and article 64 of the United Nations Charter (article 64 gives ECOSOC the right to obtain regular reports from specialized agencies). It was also a departure from article 70, which allows for reciprocal representation at each deliberation. Yet in spite of this, the Bank and the IMF reserved the right to invite UN representatives only to the meeting of the Governing Council. In reviewing these events, the Bank's historians declare that this agreement was considered unsatisfactory by the United Nations secretariat, but that it felt obliged to accept it. They go on to say that the Bank's president, "McCloy, could not be classified as a admirer of the United Nations, and Garner (the Bank's vice president) was considered anti-UN" [4].

The World Bank's refusal to comply with UN demands concerning Portugal and South Africa

From 1961, when most colonial countries had won their independence and become UN members, the General Assembly on several occasions adopted resolutions condemning the apartheid regime in South Africa and Portugal's iron dominance over several African and Asian countries. In 1965, in view of the continued financial support of the Bank and the IMF for these regimes, the UN made a formal demand: "To all the specialized agencies of the United Nations, and in particular the International Bank for Reconstruction and Development and the International Monetary Fund (...) to refrain from granting Portugal any financial, economic or technical assistance so long as the Portuguese Government fails to renounce its colonial policy, which constitutes a flagrant violation of the provisions of the Charter of The United Nations" [5]. It issued a similar demand concerning South Africa.

The Bank's directors met to take position and a majority of executive directors decided to continue making loans. To justify this decision, they invoked article 4, section 10 of the Bank's statutes [6] which forbid political involvement! All the most industrialized countries, backed by a certain number of Latin-American countries, voted to continue the loans. In 1966, the Bank approved a 10 million dollar loan to Portugal and a 20 million dollar loan to South Africa. Subsequently, under further pressure, the Bank stopped making new loans to these countries. However, a UN structure, the Decolonization Committee, continued for 15 years to denounce the fact that the Bank allowed South Africa and Portugal to apply for World Bank financing for projects in other countries. In addition, the Bank sought the favours of South Africa to obtain donations to IDA [7]

Translated by Judith Harris.

[1] The Economic and Social Council of the United Nations makes recommendations with a view to coordinating the programmes and activities of the specialized institutions of the UN (article 58 of the United Nations Charter). To this end, ECOSOC enjoys powers which are granted to it by virtue of the terms of Chapter X of the Charter. Article 62 paragraph 1 thus states: "The Economic and Social Council may make or initiate studies and reports with respect to international economic, social, cultural, educational, health, and related matters and may make recommendations with respect to any such matters to the General Assembly, to the Members of the United Nations, and to the specialized agencies concerned."

[2] Mason Edward S. and Asher, Robert E. 1973. *The World Bank since Bretton Woods*, The Brookings Institution, Washington, D.C., p.55.

[3] *Idem*, p.56.

[4] *Ibid.*, p.59.

[5] UN Doc. A/AC.109/124 and Corr. 1 (June 10, 1965).

[6] Article IV, section 10 stipulates : "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced

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in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes (set by the Bank) stated in Article I ".

[7] Kapur, Devesh, Lewis, John P., Webb, Richard. 1997. *The World Bank, Its First Half Century*, Volume 1, p. 692