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Nicaragua

A Brief History of the Relations between the World Bank, the IMF, the US Government and Nicaragua

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Central America is considered by the US government as part of its own exclusive sphere of influence. The policies adopted by the World Bank in terms of granting loans to the countries of the region are directly influenced by the political choices of the US government. The case of Nicaragua and Guatemala during the 1950s makes this clear. [1]

“Thus one of the largest developing country borrowers, in number of loans, was Nicaragua, a nation with one million inhabitants, controlled by the Somoza family. Washington and the Somozas found their relationship highly convenient. The United States supported the Somozas and the Somozas supported the United States – in votes at the United Nations, in regional councils, and by offering Nicaragua as a base for training and launching the Cuban exile forces that met disaster at the Bay of Pigs in 1961. Between 1951 and 1956 Nicaragua received nine World Bank Loans, and one in 1960. An American military base was established in 1953 from which was launched the successful overthrow, by the U.S. Central Intelligence Agency (CIA), of Guatemalan President Jacobo Arbenz, who had legalized the Communist Party and threatened to expropriate the assets of the United Fruit Company. Guatemala itself, with three times the population of Nicaragua, and though it was one of the first countries to receive a survey mission (published in 1951), did not obtain a loan until 1955, after the overthrow of its ‘communist regime.’” [2]

On 12 April 1961, just five days before the United States was due to launch a military expedition against Cuba from Nicaraguan territory, [3] the directors of the Bank decided to grant a loan to Nicaragua although fully aware that the money would be used to reinforce the dictator’s economic power. It was the price to pay for his support for the assault on Cuba. Below is an excerpt from the official minutes of the discussion between the Bank’s directors on this 12 April 1961:

- Mr. [Aron] Broches. *I am told that the Somoza Family is in everything and it would be difficult to find anything in Nicaragua which did not raise this problem.*
- Mr. [Robert] Cavanaugh. *I am concerned that we would appear to be fostering an arrangement under which people will be urged to sell land that the President wants...*
- Mr [Simon] Cargill. *If the project itself is satisfactory I don’t believe that the interest of the President is such a problem that the whole thing should be held up...*
- Mr Rucinski. *I agree that it is too late to turn it down.*
- Mr. Aldewereld. *The problem of land ownership and of the Somoza family is an unfortunate one but it is one we have been aware of from the very start and I think it is too late to raise the question now.* [4]

Concerning the attitude of the Bank with regard to the Sandinista regime during the 1980s and the influence that was brought to bear on it by the US government, we quote another excerpt from Catherine Gwin’s study: “A more recent example in which the Bank’s refusal to lend clearly coincided with U.S. policy is that of Nicaragua in the 1980s. The reason for the suspension of lending was the accumulation of arrears. However, in September 1984, the Nicaraguan government formally proposed a solution to its arrearage problem.” [5]

Gwin details the concrete proposals formulated by Nicaragua and she explains that although these proposals were acceptable, the Bank made no effort to help the Sandinista regime. She pointed out that this was in contrast to the flexibility adopted by the Bank in respect to other regimes which were allies of the US.

Reminder: While the Somoza clan had held power in Nicaragua since the 1930s thanks to United States’ military intervention, on 19 July 1979 a powerful popular movement overthrew the dictatorship forcing the dictator Anastasio Somoza to flee. The Somoza family had a stranglehold on a huge proportion of the country’s wealth and encouraged the implantation of foreign corporations, especially from the US. The people hated them. The World Bank had

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showered loans on Somoza's dictatorship. After the dictatorship fell, a coalition government brought together the traditional democratic opposition (led by top businessmen) and the Sandinista revolutionaries. The latter made no secret of their sympathy for Cuba or their desire to undertake certain economic reforms (land reform, nationalization of some foreign companies, confiscation of Somoza clan landholdings, a literacy programme...).

Washington had supported Anastasio Somoza to the bitter end but feared that the new government might spread communism in Central America. The Carter administration, in office when the dictatorship was overthrown, did not immediately take an aggressive stance. But things changed overnight when Ronald Reagan moved into the White House. In 1981, he announced his commitment to bring down the Sandinistas. He provided financial and military backing to a rebellion by former members of the National Guard ("Contrarevolucionarios" or "Contras"). The US Air Force mined several Nicaraguan ports. (See *box on the condemnation of the United States by the International Court of Justice in The Hague*). Faced with such hostility, the Sandinista majority government opted for more radical policies. During the 1984 elections, the first democratic ones in half a century, the Sandinista Daniel Ortega was elected President with 67 per cent of the ballot. The following year, the United States called a trade embargo against Nicaragua, cutting the country off from foreign investments. The World Bank had put a stop to its loans from the time of the Sandinista presidential election victory. The Sandinistas actively urged the WB to resume its loans. They were even ready to accept a drastic structural adjustment plan. The WB decided not to follow up on this and did not resume the loans until the Sandinista electoral defeat in February 1990, when Violeta Barrios de Chamorro, the US-backed conservative candidate, won the vote.

The condemnation of the United States by the International Court of Justice in The Hague

After Somoza's fall in 1979, the US attempted, by different political, economic and military means, to destabilize and then overthrow the new Sandinista system. This led to a plea by Nicaragua against the US in the International Court of Justice of The Hague which delivered a verdict in 1986 condemning the United States for violation of obligations enforced by international law, in particular the ban on the use of force (article 2 & 4 of the UN Charter) and on attempts against the sovereignty of another state. [6]

It is well worth including the official case overview as published on the ICJ website:

“On 27 June 1986, the Court delivered its Judgment on the merits. The findings included a rejection of the justification of collective self-defence advanced by the United States concerning the military or paramilitary activities in or against Nicaragua, and a statement that the United States had violated the obligations imposed by customary international law not to intervene in the affairs of another State, not to use force against another State, not to infringe the sovereignty of another State, and not to interrupt peaceful maritime commerce. The Court also found that the United States had violated certain obligations arising from a bilateral Treaty of Friendship, Commerce and Navigation of 1956, and that it had committed acts such to deprive that treaty of its object and purpose.

“It decided that the United States was under a duty immediately to cease and to refrain from all acts constituting breaches of its legal obligations, and that it must make reparation for all injury caused to Nicaragua by the breaches of obligations under customary international law and the 1956 Treaty, the amount of that reparation to be fixed in subsequent proceedings if the Parties were unable to reach agreement. The Court subsequently fixed, by an Order, time-limits for the filing of written pleadings by the Parties on the matter of the form and amount of reparation, and the Memorial of Nicaragua was filed on 29 March 1988, while the United States maintained its refusal to take part in the case. In September 1991, Nicaragua informed the Court, inter alia, that it did not wish to continue the proceedings. The United States told the Court that it welcomed the discontinuance and, by an Order of the President dated 26 September 1991, the case was removed from the Court's List.”

As we've just seen, in 1991, Violetta Chamorro's government, elected in 1990, discontinued the proceedings and would not demand compensation from Washington.

When Daniel Ortega was again elected president in 2006 and took office at the beginning of 2007, the World Bank's and the IMF's attitude was radically different from what it was in the 1980s, and the same applies to Washington's response. Daniel Ortega's regime is now considered to be quite amenable. The agreements that the right-wing governments had passed with the two Bretton Woods financial institutions –the World Bank and the IMF– from 1990 to 2006 were renewed. Ortega's government received loans and proceeded with neoliberal reforms the former governments had launched. In February 2018, the IMF congratulated Daniel Ortega's government. [7] He had decided to implement a counter-reform of the pensions system and social security, which triggered massive demonstrations in April 2018. Ortega withdrew those measures to try and put a stop to the demonstrations but repression had been very harsh with many casualties among demonstrators so the protest movement continued. As for the World Bank, it chose the very moment in April 2018 when his government had just announced neoliberal measures concerning social security to congratulate Ortega on his sound economic policies. [8] We will have to be vigilant about what is going to happen next.

Further reading to better understand the strategic issues at stake through the intervention of the World Bank, the IMF and the US government in the field of “development”:

A Brief History of the Relations between the World Bank, the IMF, the US Government and Nicaragua

- Eric Toussaint, *The World Bank: a never-ending coup d'État. The hidden agenda of the Washington Consensus*, VAK, 2007.
- Eric Toussaint, *The World Bank – A Critical Primer*, Between the lines, Toronto/Pluto Press, London/David Philips Publisher, Cape Town/CADTM, Liège, 2008.

Eric Toussaint, Doctoral thesis in political science, defended at the universities of Liège and Paris VIII in 2004, 9356" class="spip_out" rel="external">Enjeux politiques de l'action de la Banque mondiale et du Fonds monétaire international envers le tiers-monde

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[1] This is the third part in a series on Nicaragua. Part 1 is here [An authentic revolution in 1979](#) and Part 2 is here [The evolution of the regime of President Daniel Ortega since 2007](#)

[2] Kapur, Devesh, Lewis, John P., Webb, Richard (ed.). 1997. *The World Bank, Its First Half Century*, volume 1, p. 103. It is to be noted that book from which the quote is taken was commissioned by the World Bank on the occasion of its fiftieth anniversary.
<http://documents.worldbank.org/curated/en/313081468322727631/History>

[3] The expedition occurred on 17 April 1961. Over 1,500 anti-Castro mercenaries were to land in the Bay of Pigs, Cuba. It was a monumental fiasco.

[4] This is from KAPUR, Devesh, LEWIS, John P., WEBB, Richard. 1997. *The World Bank, Its First Half Century*, Volume 1, p. 165

[5] Catherine Gwin, in Kapur, Devesh, Lewis, John P., Webb, Richard (ed.). 1997. *The World Bank, Its First Half Century*, volume 2, p. 258

[6] International Court of Justice (ICJ), *Military and Paramilitary Activities in and against Nicaragua (Nicaragua v. United States of America)*. Judgement of 27 juin 1986. As a consequence of this judgement the US officially announced that they no longer recognized the ICJ's competence. See <http://www.icj-cij.org/en/case/70>

[7] Nicaragua IMF staff concluding statement, 6 February 2018,
<https://www.imf.org/en/News/Articles/2018/02/06/ms020618-nicaragua-staff-concluding-statement-of-an-imf-staff-visit>

[8] Nicaragua: a general overview, 16 April 2018, <http://www.worldbank.org/en/country/nicaragua/overview>