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Series : Bretton Woods, the World Bank and the IMF: 70th anniversary (Part 4)

SUNFED versus World Bank

- Features -

Publication date: Wednesday 6 August 2014

From 1950 to 1960, having no Marshall Plan to promote their growth, the developing countries proposed that a new UN body be created, based on a "one country, one vote" system designed to facilitate loans to their industries: SUNFED (Special United Nations Fund for Economic Development). The industrialized countries were fiercely opposed to this move, and successfully imposed a counter-proposal, the International Development Association (IDA), a branch of the World Bank, thus effectively putting an end to SUNFED.

From the beginning of World Bank operations, the governments of developing countries, starting with Latin America and followed by India, criticized the fact that their countries enjoyed no aid facilities similar to those of the Marshall Plan, which was restricted to Europe. Indeed, World Bank loans were granted at current market interest rates, while Marshall Plan aid was mainly given in the form of grants. A small proportion of Marshall Plan aid was in the form of interest-free loans or loans with interest rates lower than those of the market.

In 1949, an Indian economist proposed creating a new international organization within the framework of the UN. He suggested it be called the "United Nations Administration for Economic Development". Some years later, the same idea took shape within ECOSOC, and SUNFED (*Special United Nations Fund for Economic Development*) was set up. From 1950 to 1960, several Third World countries, as well as the USSR and Yugoslavia, waged a systematic campaign within the UN to consolidate and reinforce SUNFED. For the US government and the governments of the other major industrial powers, the idea of a special fund controlled by the UN and separate from the World Bank was unacceptable.

Among the reasons behind the developing countries' demand for a specialized UN agency to finance their development was the question of voting rights. They wanted a UN specialized agency in order to ensure that the "one country, one vote" rule was applied, as opposed to the census-type rule applied within the Bank. The same reason – but in reverse – was behind U.S. and other major powers' opposition to the proposal: the small number of rich countries were afraid of becoming minority voters.

As recounted by the Bank historians, Mason and Asher, and later by Catherine Gwin, in 1954 the United States made a first counter-proposal which the Bank put into practice in 1956 with the creation of the International Finance Corporation (IFC), whose role was to grant loans to private sector companies in developing countries [2]. This new initiative failed to quell dissatisfaction and the developing countries' campaign in favour of SUNFED gained strength: in 1958, this Special United Nations Fund was authorized to finance pre-investments in developing countries.

Unfortunately, the Third World camp quickly became divided. India, which had originally supported SUNFED, switched allegiances and declared itself favourable to the second U.S. counter-proposal. This proposal involved the creation of an International Development Association (IDA), linked to the World Bank, as an alternative to SUNFED [3]. The pro-Washington Indian lobby was convinced that India would benefit from IDA since the major powers predominating in the Bretton Woods institutions would understand the necessity of giving India special treatment in view of its strategic position. And India was right: in the first year of IDA activity, it received 50 % of IDA loans.

By proposing the creation of IDA, the U.S. government had a dual objective: on the one hand to prevent the United Nations continuing to reinforce SUNFED and thereby satisfying the needs of developing countries; on the other hand to find a way of using the currency reserves of developing countries that the U.S. Treasury had been piling up since 1954 through the sale of its agricultural surpluses under Public Law 480 [4]. Several authors agree that it was Senator Mike Monroney of Oklahoma who first floated the idea: he put a resolution before the Senate for the establishment of an IDA in cooperation with the World Bank and proposing that non-convertible currency reserves should be paid into this agency in order to grant long-term, low interest loans that would be paid back in local currency. Basically it meant that loans would be made to poor countries so that they could buy North-American agricultural surpluses [5]. Eugene Black, president of the World Bank, would later say: "IDA was really an idea to offset the urge for SUNFED" [6]. It is worth quoting Mason and Asher here: "As an international organization affiliated with the World Bank, IDA is an elaborate fiction. Called an Â« association Â» and possessed of Articles of Agreement, officers, governmental members galore, and all the trappings of other international agencies, it is as yet simply a fund administered by the World Bank." [7]

The United States provided 42 % of IDA's initial funding, thus ensuring U.S. predominance within the agency.

At the same time that IDA was founded, the DAC (Development Assistance Committee of the OECD) was being set up in Paris. This was a structure designed to "coordinate" bilateral development aid from the most highly industrialized countries. This spelt the final demise of SUNFED, the United States having imposed institutions where U.S. control could be guaranteed.

IDA financing

IDA does not borrow on the financial markets. The money it lends comes from donations made regularly by member countries (mainly the most wealthy industrial countries, and also the Petroleum Producing Countries (OPEC) since the 1970's, and from the repayments which it receives.

Every three or four years, the contributing countries haggle over the kitty. It is the stuff of great debates in the U.S. Congress, which is where the payouts are decided. Bargaining proceeds smartly between Congress, the Washington government and the U.S. presidency of the World Bank/IDA. Yet the amounts at stake are actually very modest. What is really important is to ensure that money loaned by IDA comes back to the donors in the form of purchases (linked aid) [8].

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[1] This section is largely based on Van de Laar, Aart. 1980. *The World Bank and the Poor*, Martinus Nijhoff Publishing, Boston/The Hague/London, 1980, p. 56-59 ; Mason Edward S. and Asher, Robert E. 1973. *The World Bank since Bretton Woods*, The Brookings Institution, Washington, D.C., pp. 380-419 ; Gwin, Catherine. "U.S. relations with the World Bank, 1945-1992", in Kapur, Devesh, Lewis, John P., Webb, Richard. 1997. *The World Bank, Its First Half Century, Volume 2*, pp.205-209; Rich, Bruce. 1994. *Mortgaging the Earth*, Earthscan, London, p.77.

[2] Mason Edward S. and Asher, Robert E. 1973. p.384-385 ; Gwin, Catherine. in Kapur, Devesh, Lewis, John P., Webb, Richard. 1997. p.206 ; Van de Laar, Aart. 1980. p.57.

[3] Kapur, Devesh, Lewis, John P., Webb, Richard. 1997. *The World Bank, Its First Half Century*, Volume 1, p. 1127

[4] Van de Laar, Aart. 1980. p.57; Gwin, Catherine , in Kapur, Devesh, Lewis, John P., Webb, Richard. 1997. p.206; Mason Edward S. and Asher, Robert E. 1973. p.386-387.

[5] Kapur, Devesh, Lewis, John P., Webb, Richard. 1997. *The World Bank, Its First Half Century*, Volume 1, p. 1128

[6] Mason and Asher, p.386.

[7] Mason and Asher, p.380-381.

[8] Kapur, Devesh, Lewis, John P., Webb, Richard. 1997. *The World Bank, Its First Half Century*, Volume 1, p. 1149.

