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Why not Merge the International Monetary Fund (IMF) with the International Bank for Reconstruction and Development (World Bank)

Cover Page Footnote

** Professor of Law, University of Paris-I, Pantheon-Sorbonne.

WHY NOT MERGE THE INTERNATIONAL MONETARY FUND (IMF) WITH THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (WORLD BANK)?*

DOMINIQUE CARREAU**

INTRODUCTION

WHY not merge the International Monetary Fund (“IMF” or “Fund”) with the International Bank for Reconstruction and Development (“World Bank” or “Bank”)? To raise such a question in itself appears sacrilegious. This question does not, however, belong exclusively to the realm of intellectual provocation. The respective development of both the IMF and the World Bank since their inception some fifty years ago justifies querying their independent existence, beyond any facile or trite remarks on the excessive cost of international bureaucracies that could be reduced by merging these two giant specialized agencies of the United Nations.

This interesting question is not raised only because it coincides with the fiftieth anniversary of the Bretton Woods “twins”—as the IMF and the World Bank are commonly called. It was already raised some twenty years ago (in January, 1976 to be precise) by that respected journal, the London-based *Economist*,¹ which was, to the best of our knowledge, the first observer to speculate about the advisability of the continuing separate existence of the IMF and the World Bank.² Since then, the same view has surfaced periodically, albeit always presented in interrogative form.

The gist of the arguments are easily summarized. When the IMF and the World Bank were created at the Bretton Woods Conference of July, 1944, their founding members assigned them precise and distinct functions, as evidenced by their very titles. The Fund was to be a kind of international non-profit organization designed to promote a code of good monetary behavior and to assist its member States with balance of payments (*i.e.*, short-term) difficulties.³ The World Bank was to be a profit-oriented international organization aimed at financing projects that member States in a phase of reconstruction or development could not afford to fund.⁴ Over the years, the boundaries between the two institu-

* Address given by Professor Dominique Carreau on April 7, 1994 as part of the Fordham University School of Law Graduate Colloquium 1993-1994.

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1. *Do We Need an IMF?*, *The Economist*, Jan. 17, 1976, at 81.

2. *See id.* at 82.

3. *See infra* part I.A.

4. *See infra* part I.B.

tions grew more indistinct: the IMF became increasingly involved in long-term financing while losing the essential elements of its normative powers⁵ and the World Bank became drawn into program-lending and country-lending.⁶ Thus, since the two Bretton Woods institutions share the same areas of activity—developing nations and, more recently, assistance to the systemic transformation of planned economy (or socialist) countries into market economy (or capitalist) countries—it would appear legitimate to contemplate a merger.

The arguments that can be put forward to justify the initial speculation will be developed below, though without recommending a particular course of action as this would run contrary to an academic approach. It is up to each interested person to make up his or her own mind as to the desirability of a possible IMF/World Bank merger and as to the choice of the absorbing institution—a relatively secondary issue, except, naturally, for the officials involved.

In order to understand the background of the issue, it is necessary to review the creation of the IMF and the World Bank and to examine the major features of their development that show clear signs of convergence.

I. THE IMF AND THE WORLD BANK AS DEFINED BY THEIR CONSTITUTIVE CHARTERS

A. *The IMF Under Its Articles of Agreement*

The tasks assigned to the IMF by its founding members are manifold, but can be broken down into two distinct but inter-related categories. First, the IMF was set up as an institution based on the concept of international cooperation between States.⁷ It constitutes a typical co-operative organization, similar to other United Nations specialized institutions. Its role is to apply this concept to its sphere of activity, namely monetary policy.⁸ The Fund's primary task is "[t]o promote international monetary cooperation"⁹ and, in the same vein but in more concrete terms, "[t]o give confidence to members by making the Fund's resources temporarily available to them under adequate safeguards."¹⁰ This refers to the institution's lending operations.

Second, the IMF received powers to establish norms that proved to be a formidable innovation in international monetary law.¹¹ Specifically,

5. See *infra* part II.A.

6. See *infra* part II.B.

7. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. I, 60 Stat. 1401, 1401-02.

8. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. I(iii), 60 Stat. 1401, 1401.

9. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. I(i), 60 Stat. 1401, 1401.

10. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. I(v), 60 Stat. 1401, 1401.

11. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, arts. I, VIII, 60 Stat. 1401, 1401-02, 1411-13.

the Fund was required to promote and enforce the code of monetary good conduct established at Bretton Woods, which was characterized by a system of stable exchange rates devoid of "competitive exchange depreciation."¹² A further requirement was the "establishment of a multilateral system of payments in respect of current transactions"¹³—for example, a certain type of currency convertibility. These objectives were specified in other provisions of the Fund's Charter that made them enforceable.¹⁴ Article IV describes in detail the rights and obligations of member States regarding the implementation of exchange rates¹⁵ and Article VIII concerns members' other obligations with a special emphasis on currency convertibility.¹⁶ Finally, a specific provision, Article XIV, enables member States to derogate provisionally from their obligations under Article VIII.¹⁷

The IMF's two main functions, cooperative and normative, are closely linked. Clearly, States agreed to limit their traditional monetary powers by living up to demanding international obligations because they were entitled to receive sufficient financial assistance when needed—for example, in the event of a balance of payments deficit. In other words, the partial loss of monetary sovereignty by member States was compensated by the right to receive assistance. It was up to the IMF to manage this delicate and highly volatile equation.

B. *The World Bank Under Its Articles of Agreement*

By and large, the World Bank seems a much simpler and more limited institution than the IMF. This is illustrated by the very title of the other Bretton Woods twin. The purpose was to give birth to a bank whose role would be to act as an intermediary on the markets between prospective investors and prospective borrowers.¹⁸ In other words, the World Bank, like any other domestic bank worldwide, was required to play a traditional intermediary role by borrowing funds on the markets for re-lending to its customers, with its capital acting as collateral for its undertakings. It is not very different from any other bank except that it is an inter-State organization: its members—its shareholders—are States only and its loan beneficiaries must also be nation States or their agen-

12. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. I(iii), 60 Stat. 1401, 1401.

13. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. I(iv), 60 Stat. 1401, 1401.

14. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, arts. IV, VIII, XIV, 60 Stat. 1401, 1403-06, 1411-13, 1420-21.

15. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. IV, 60 Stat. 1401, 1403-06.

16. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. VIII, 60 Stat. 1401, 1411-13.

17. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. XIV, § 3, 60 Stat. 1401, 1420-21.

18. See Articles of Agreement of the International Bank For Reconstruction and Development, July 1-22, 1944, art. I(i), 60 Stat. 1440, 1440-41.

cies.¹⁹ From a legal point of view this is a very key feature as it means that the Bank's lending operations, which take the form of international treaties, are subject to and protected by international law. Otherwise, the World Bank operates like a regular bank. Even though its loans must be earmarked for reconstruction²⁰ (now a moot point) and for the development of "productive facilities and resources in less developed countries,"²¹ such loans are granted only for profitable operations based exclusively on "considerations of economy and efficiency."²²

Thus, unlike the IMF, the World Bank has not been endowed by its founding members with any norm-creating functions. Similarly, the Bank's Articles of Agreement bear no trace of a financial code of good conduct accepted by the member States regarding the treatment of foreign direct investment.

The absence of normative rules in the World Bank's Articles of Agreement can be explained by two sets of reasons of varying importance. First and foremost, it is not within the normal scope of a bank, whether domestic or international—*i.e.*, inter-State—to encourage or impose upon its clients a particular type of behavior. When granting loans, banks have to ensure that they will be repaid in due course on the agreed terms and that they will be adequately guaranteed in the event of default. Any bank that meddles in its clients' business management runs a serious risk of incurring liability if the clients have financial difficulties. In short, normative functions are alien to bank lending.

Second, had the World Bank been granted normative powers, this would have led to a never-ending international conflict regarding the status of foreign direct investment as well as, more generally, the recognition and scope of the right to property. True, this was an area more conflict-prone in 1944 than it is today, as has been shown by the recent worldwide privatization drive and the collapse of command, or State-controlled, economies. It was, however, a wise decision in 1944 to leave this controversial issue out of the World Bank's statutes and to rely on specific and lateral approaches such as those in the 1965 International Centre for Settlement of Investment Disputes and 1985 Multilateral Investment Guarantee Agency conventions.

II. EVOLUTION OF THE BRETTON WOODS INSTITUTIONS

A. *The Case of the IMF*

During its first years of activity, the existence of the IMF passed largely unnoticed. Most of its future key members—European nations—

19. See Articles of Agreement of the International Bank For Reconstruction and Development, July 1-22, 1944, art. I(i), 60 Stat. 1440, 1440.

20. See *id.*

21. See *id.*

22. See Articles of Agreement of the International Bank for Reconstruction and Development, July 1-22, 1944, art. III, § 5(b), 60 Stat. 1440, 1444.

were undergoing their reconstruction process and were placed under the benign protection of the United States through the constraints of the famous and enlightened "Marshall Plan." When the Western nations' economies began to recover, as shown by their return to currency convertibility in the early 1960s, the IMF began to play an active role on the international monetary scene. The Fund reached its hey-day in 1969 with the first amendment to its Articles of Agreement,²³ whereby it received the unprecedented power of issuing a new international conventional currency with "special drawing rights"—SDRs.²⁴ However, as we all know, the Tarpeian Rock is not far from the Capitol, and the IMF's initial and newly-gained functions were to be drastically affected by two major and largely unpredictable developments. Firstly, its normative role disintegrated due to the increasing volatility of the exchange rates of its key member States, which resulted in basic modifications officialized in the second amendment to its Articles of Agreement in 1978.²⁵ Secondly, the emergence and dramatic growth of the "Euro-Markets" gradually gave birth to a parallel and private international monetary system, which both unsettled and profoundly modified the IMF's assistance function.²⁶

1. The Contraction of the IMF's Normative Powers: The Demise of the Original Par Value System

Undoubtedly, the most characteristic and revolutionary aspect of the code of good monetary conduct established by the IMF Articles of Agreement of 1944 resided in the creation of an international exchange rate regime controlled and administered by the Fund. Never in the past had States accepted strict commitments concerning the definition and implementation of their exchange rate. Reflecting on the pre-Bretton Woods state of international law in this area with regard to the well-known *Serbian and Brazilian Loans Cases*²⁷ of 1929, the Permanent Court of International Justice asserted that "[i]t is indeed a generally accepted principle that a state is entitled to regulate its own currency."²⁸ In concrete terms, this meant that States were entirely free to define the value of their respective currencies as they saw fit, which implied an un-

23. Amendment of the Articles of Agreement of the International Monetary Fund, July 28, 1969, 20 U.S.T. 2775.

24. See Amendment of the Articles of Agreement of the International Monetary Fund, July 28, 1969, art. XXI, 20 U.S.T. 2775, 2781.

25. See Second Amendment of the Articles of Agreement of the International Monetary Fund, Apr. 1, 1978, art. VI, 29 U.S.T. 2203, 2208.

26. See Leonard Gomes, *The International Adjustment Mechanism: From the Gold Standard to the EMS 265-67* (1993) (discussing the rise and role of the Euro-Markets and the subsequent collapse of the Bretton Woods twins).

27. *Brazilian Loans* (Fr. v. Braz.), 1929 P.C.I.J. (ser. A/B) Nos. 14/15 (July 12); *Serbian Loans* (Fr. v. Serb.), 1929 P.C.I.J. (ser. A/B) Nos. 14/15 (July 12).

28. *Serbian Loans* at 44.

limited power to resort to monetary tactics such as devaluation—by far the most frequent—and re-evaluation.

The Fund's Articles of Agreement drastically altered that aspect of customary international law. By ratifying the Fund's constitutive Charter and becoming members, States agreed (i) to evaluate their currencies in terms of gold, which then became the "common denominator" of all monetary units;²⁹ (ii) to stabilize the evaluated value within strict limits (plus or minus one percent);³⁰ and (iii) not to modify such par value without notifying, and in most instances obtaining the prior agreement of, the IMF.³¹ In short, the Bretton Woods system officialized and made mandatory a regime of stable—but not fixed—exchange rates under the supervision of the IMF, thus preventing the opposite situation that had prevailed during the 1930s and that had been associated with the infamous "beggar-my-neighbor policy" of freely fluctuating currencies.³² In addition, members that had agreed to make their currencies convertible into gold for only official holders—as opposed to private ones—were deemed to satisfy their monetary obligations in terms of currency stability.³³ At the time, the United States proved to be the only country that felt strong enough to open this gold window and accept the conversion into gold of United States dollars held abroad by official institutions (such as central banks, national treasuries, or governments).

This (briefly summarized and simplified) par value system served the world well for about a quarter of a century despite several transitional crises. But, on August 15, 1971, it collapsed. That day proved to be a turning point in the history of the post-war international monetary system. President Richard M. Nixon announced two key decisions,³⁴ one entirely lawful, and the other in complete contradiction of United States obligations towards the IMF and its member States. The first was to announce the suspension of the United States dollar's gold convertibility for official foreign holders of United States currency,³⁵ thus closing down the above-mentioned gold window.³⁶ Since gold convertibility was in no way mandatory and was purely optional, no international commitment was at stake. The second and much more important announcement was that the United States dollar would be set free from any international

29. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. IV, § 1(a), 60 Stat. 1401, 1403.

30. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. IV, § 2, 60 Stat. 1401, 1404.

31. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. IV, § 5, 60 Stat. 1401, 1404.

32. See Magret G. de Vries, *The Par Value System: An Overview*, in 2 *The International Monetary Fund 1945-65: Twenty Years of International Cooperation* 39 (J. Keith Horsefield ed., 1969).

33. See *id.* at 40-43.

34. See *The Challenge of Peace*, 7 Weekly Comp. Pres. Doc. 1168, 1170 (Aug. 21, 1971).

35. See *id.*

36. See *supra* notes 29-33 and accompanying text.

stability constraints and that it would, in short, float.³⁷ With this second decision, the main founding member of the IMF blatantly violated the core element of the par value system set forth in the Articles of Agreement. In order to abide by its then-existing international commitment, the United States should have, after suspending the gold convertibility of the dollar, allowed its currency to fluctuate within the permitted band on the domestic exchange market like every other IMF member State.

By refusing to place the dollar at par with other world currencies, the United States inflicted a severe blow on the international monetary system and on the Fund that managed and controlled the system—a blow from which neither the system nor the Fund ever fully recovered. Over the next few years, chaos reigned in international monetary relations. In theory, that unfortunate phase ended in 1978 with the entry into force of the second amendment to the IMF Articles of Agreement, which valiantly attempted to re-introduce some rule of law into the field of exchange rates.³⁸ In reality, the new exchange provisions of the revised IMF Charter merely legalized the prevailing monetary situation, which in fact meant that floating exchange rates were officially recognized.

Such a system, or rather “non-system,” carries a lot of appeal for States as they are freed from the constraints of the exchange markets when implementing their economic policy. In other words, with the second amendment of 1978, IMF member States recovered most of the monetary sovereignty that they had previously agreed to relinquish.

From the Fund’s point of view, this reform consisted of a marked diminution of its role as a normative institution that could not be veiled by the grand language used to describe its new function of “surveillance over exchange arrangements.” While its member States have regained the freedom to adopt the exchange rate policies of their choice, the Fund has lost the freedom to exercise control in many areas. Soft law norms are, by definition, unmanageable.

2. The Modification of the IMF’s Assistance Function: The Challenge of the Euro-Markets

While the IMF’s reduced normative role is attributable to its members’ unruly conduct, the changing direction of its assistance activities is the outcome of the creation and prodigious rise of the “Euro-Markets,” a phenomenon that was difficult to anticipate and assess at the Fund’s creation.

In the early 1960s, thanks to the gradual liberalization of capital movements, two truly international, or “off-shore,” markets were born. On a short-term basis, international banks—domestic banks with international

37. See *The Challenge of Peace*, 7 Weekly Comp. Pres. Doc. 1168, 1170 (Aug. 21, 1971).

38. See *Second Amendment of the Articles of Agreement of the International Monetary Fund*, Apr. 1, 1978, 29 U.S.T. 2203; see also *Articles of Agreement of the International Monetary Fund*, July 1-22, 1944, art. IV, §§ 4, 5, 8, 60 Stat. 1401, 1404-05.

activities—receiving deposits from international clients started re-lending to foreign customers in need, thus fulfilling their traditional role of intermediary. By so doing, a true international money market came into being. A term was coined to describe such international deposit and lending activities: the Euro-Currency market.³⁹ On a long-term basis, these international banks tapped the international financial markets to place bond issues for their clients: the Euro-Bond market was born.⁴⁰

When they were created, these markets went largely unnoticed because they were aimed at serving the financing needs of transnational corporations. States maintained a benign neglect policy regarding these new developments as they enabled “their” domestic corporations to raise funds on international markets that could not be obtained from domestic sources, except at a high cost. In other words, nation States adopted a very convenient “hands-off” policy.

During the first oil crisis of 1973-74, the Euro-Markets, in particular the Euro-Currency market, became critically important to the States and their agencies.⁴¹ The tremendous increase in oil prices resulted in massive balance of payments surpluses for oil-exporting nations and corresponding massive deficits for oil-importing nations.⁴² This new situation provided a golden opportunity for international banks. They received huge new deposits from oil-exporting States and their financial institutions (the so-called “surplus” or “petro” dollars)⁴³ and were more than eager to lend this money to customers in need such as States facing balance of payments difficulties because of the dramatic increase in oil prices. Thus, the petro-dollar recycling phenomenon was born.⁴⁴

Several lessons should be drawn from this aspect of the oil crisis of the early 1970s. First, States or their agencies operated in the international Euro-Markets either as lenders or borrowers. The Euro-Markets proved to be the only place, or rather mechanism, through which such huge sums of money could be effectively channeled for lending and borrowing. Second, the IMF response—the setting up of a meager “oil facility”—was a poor alternative to the achievements of the Euro-Markets. In terms of sheer numbers, the Euro-Markets were better equipped than the IMF to provide an adequate response to this major financial crisis.

Moreover—and this is a key factor—the IMF’s assistance at any level is always *conditional*.⁴⁵ The conditionality of IMF loans is explained not only by the Fund’s obligation to ensure that its resources continue to

39. See Richard W. Edwards, Jr., *International Monetary Collaborations* 128-33 (1991).

40. See *id.* at 133-35.

41. See Robert Solomon, *The International Monetary System, 1945-1981*, at 316-33 (1982).

42. See *id.* at 316.

43. See *id.*

44. See *id.* at 325-28.

45. See *Articles of Agreement of the International Monetary Fund*, July 1-22, 1944, art. V, 60 Stat. 1401, 1406.

revolve in order to be available to other members;⁴⁶ but, the criteria and conditions set up over the years by the IMF aimed at persuading, or rather forcing, member States seeking financial assistance to adopt stabilization plans to reduce the various internal and external imbalances at the root of international financial difficulties. Member States receiving IMF assistance are thus placed in a position of international financial trusteeship. Understandably, the member States try to avoid this unpleasant situation that is somewhat reminiscent of the not-so-distant colonial past.

On the contrary, bank lending is based on purely financial criteria, namely the borrower's ability to repay its loans as perceived and assessed by the lender. In other words, the conditions imposed by international banks in the Euro-Markets are, and incidentally can only be, of a purely financial nature. This quite natural difference in approach became manifestly clear during the oil crisis of 1973-74 and this drastically affected the development of the IMF's mission of financial assistance and its role as an international institution.

IMF members facing balance of payment difficulties and in need of international financial assistance may be classified in two categories. The first includes States that are financially viable—or credit-worthy in bank parlance. They may tap Euro-Market resources without difficulty as they are viewed as potentially good debtors by international banks. Such States have easy access to the international loan market and can obtain credit on commercial terms with no strings attached. This category broadly covers Organization for Economic Co-operation and Development member States—a club of the twenty-four wealthiest nations in the world⁴⁷—and newly industrialized countries, including relatively affluent nations such as Brazil, Mexico, South Korea, Taiwan, and Thailand. These States are able to bypass the IMF and its constraints since they do not need to solicit financial aid. Conversely, the Fund is not in a position to use its financial leverage to influence these States' policies.

Presently, since the loss of its principal normative function in the exchange rate field, the IMF's role seems limited to controlling the economies of member States requesting financial assistance, namely developing countries and former command economy countries that have no alternative sources of outside financing. Moreover, this trend has been reinforced by the international banks operating on the Euro-Markets as they have made the conclusion of appropriate credit arrangements with the IMF a condition precedent to their loans to developing or transforming countries. Stabilization programs sponsored and approved by the Fund constitute a seal of international approval of a State's economic policies that acts as a *de facto* guarantee for prospective private lenders.

46. See Articles of Agreement of the International Monetary Fund, July 1-22, 1944, art. V, § 3(a)(iii), 60 Stat. 1401, 1406-09.

47. See Edwards, *supra* note 39, at 68-74.

Faced with this systemic development over which it has no control, the IMF wisely decided to go along with it in order to maintain its operating role in the world of international finance. Thus, over the years, the IMF adjusted to its new environment by creating special financial mechanisms providing easier access to its resources for member States in need. Virtually all of the new "facilities"—the term used to describe these new techniques—had the common aim of better serving the needs of the Fund's developing members: to wit, the "Compensatory and Contingency Planning Facility," the "Extended Fund Facility," the "Structural Adjustment Facility," and the "Enhanced Structural Adjustment Facility." Moreover, in April 1993, a new "temporary" facility was set up—the "Systemic Transformation Facility"—to extend financial assistance to countries facing balance of payments difficulties brought about by the transition from a centrally-planned economy to a market economy.

Gradually and involuntarily, the IMF has lost its influence over its most developed member States, which remain bound by very limited monetary obligations since the collapse of the par value system in 1971 and which have abstained from turning to the IMF for assistance both quantitatively limited and qualitatively restrictive because of the conditions imposed. At the same time, because it is *de facto* confined to lending to developing countries, the IMF has been obliged to sponsor, or rather impose, stabilization programs based on sound, liberal economic policies. It thereby exposes itself to strong criticism for interfering with the domestic affairs of its weakest members and placing them under a subtle and covert form of international tutelage. This role has been further reinforced by the Fund's successful handling of the international debt problem that came to the surface when Mexico defaulted on its loans in August, 1982 and which was followed by a plethora of similar crises. The IMF thus became involved in managing the long-term economic policies of its developing and "transforming" members. Its assistance, originally limited to financing short-term difficulties, has been completely modified to address long-term, structural imbalances. And this is precisely the World Bank's basic mission.

B. *The Case of the World Bank*

Pursuant to its Articles of Agreement, the Bank's lending policy was to be dictated by purely financial considerations, which meant, in concrete terms, that the projects financed in member States should be sound and should generate returns sufficient to repay the loan.⁴⁸ This initial concept corresponds to the World Bank's primary function as envisioned by its founding members.⁴⁹ As an intergovernmental bank, it was assumed that the World Bank would enjoy the best credit rating available

48. See Articles of Agreement of the International Bank For Reconstruction and Development, July 1-22, 1944, art. III, 60 Stat. 1440, 1443-45.

49. See Articles of Agreement of the International Bank For Reconstruction and Development, July 1-22, 1944, art. I, 60 Stat. 1440, 1440-41.

that would ensure cheap and easy access to international and domestic financial markets. Subsequently, such funds could be re-lent by the Bank to its member States who would then enjoy preferential conditions that they would never have been able to obtain alone. However, to ensure that the World Bank itself would be able to meet its obligations to its lenders, it prudently limited its loans to financially sound projects.⁵⁰ This general approach was more than sensible and is common to every respectable bank in the world. Specifically, the World Bank's Articles of Agreement expressly prohibit the Bank from granting loans based on "political or other non-economic influences or considerations."⁵¹

Though the World Bank strictly limited its loans to profit-generating projects during its early years, it started deviating from that course in the early 1960s largely as a result of pressure from its developing members who had become its only "clients" once the reconstruction process in Europe had been completed. Thus, projects that could not be viewed as purely profit-oriented but that would obviously contribute to the overall development of member States became eligible for World Bank loans. The World Bank thus agreed to finance projects in new areas such as education, population (family planning), health, nutrition, and urban development.

In so doing, the Bank increased its financial exposure as many assisted projects did not generate any income. This required borrowing member States to earmark funds from their already limited foreign exchange resources to reimburse the Bank. It was thus not surprising that the World Bank had to face defaults—albeit provisional—by some member States. These loans were tactfully described as having "non-accrual status." In other words, the World Bank is being plagued, although to a lesser degree, by the same financial problems as the IMF because of payment arrears by some member States.

More recently, in the mid-1980s, the World Bank embraced a broader vision of its role in the development process by deciding to grant loans for adjustment purposes either in given sectors (sector-adjustment loans) or for national economies as a whole (structural-adjustment loans). By broadening its financing activities in this way, the World Bank had to develop a different approach to its lending policy that was less technical ("Is the project profitable?") and more policy-oriented ("Is the adjustment operation sufficiently effective for development?").

Thus, the concept of "conditionality" (a cornerstone of the IMF's credit policy) has gradually become a part of the World Bank's lending practice. The conditions now "imposed" by the World Bank are largely similar to those prevailing for IMF member States. In order to be eligible for assistance, World Bank member States must put their houses in

50. See Articles of Agreement of the International Bank For Reconstruction and Development, July 1-22, 1944, art. III, § 4, 60 Stat. 1440, 1444.

51. See Articles of Agreement of the International Bank For Reconstruction and Development, July 1-22, 1944, art. III, § 5(b), 60 Stat. 1440, 1444.

order regarding such areas as inflation, public deficits, liberalization of foreign trade and investment, exchange rates, and land and tax reforms. Except for minor differences, the conditions imposed by the Bretton Woods twins are largely interchangeable.

CONCLUSION

The fact that the development of the IMF and the World Bank has converged is significant for their (largely) common member States. First, member States run the risk of having to satisfy more conditions if they request the assistance of both Bretton Woods institutions at the same time. Second, because the macro-economic conditions "imposed" by the IMF and the World Bank are similar, credit refusals or approvals will usually be granted simultaneously by both institutions. Thus, a country failing to gain access to IMF resources for not meeting certain criteria has little chance of being more successful with the World Bank. Is this justifiable? Reasonable doubts could be raised if the two Bretton Woods institutions in fact pursued different missions. However, because their main purposes have turned out to be largely the same—assisting developing and transforming countries—the question arises whether the singularities of their respective operating techniques justify the continued separate existence of the IMF and the World Bank. This issue must be left open. It is, however, a matter that deserves to be debated.