

May 24, 1946.

Relationship Between the United Nations and
the International Monetary Fund

When the Articles of Agreement of the International Monetary Fund were drafted at Bretton Woods, consideration was given to the problem of the Fund's relations with any general international organization that might be created. At that time preliminary work had begun in a number of countries on the establishment of a general political organization of the United Nations, and in order that appropriate relations might be established between such an organization and the Fund, the conference included Article X, which provides:

"RELATIONS WITH OTHER INTERNATIONAL ORGANIZATIONS

"The Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article XVII."

Thus it is apparent that specific problems concerning the relationship of the United Nations to the Fund must be examined in the light of the detailed provisions governing the operations and administration of the Fund.

A question has arisen whether the United Nations has any authority with respect to the annual administrative budget of the Fund. In view of the provision of Article X that the Articles of Agreement must be amended if arrangements are to be made which modify them, the answer to this question must be found in the Articles of Agreement of the Fund.

The Fund is an autonomous body with specific powers conferred upon it by the member countries. These powers are vested by Article XII, Section 2(a) in the Board of Governors with an appropriate provision for delegation to the Executive Directors. Wherever it was intended that an authority outside of the Fund should exercise power with respect to its activities, specific provision was made to that effect. For example, in Article VII, Section 2, methods are specified for replenishing the Fund's holdings of a scarce currency and it is stated that the Fund may propose to the member whose currency is scarce that it borrow such currency from sources other than the government of that member, but that the Fund

may take such action only "with the approval of the member." There is no similar language dealing with any administrative feature of the Fund. Administration of the Fund is left entirely to its management by the Agreement. Any action of the Fund which would result in the United Nations exercising authority over its annual administrative budget would not constitute cooperation "within the terms of this agreement". On the contrary, it would be an arrangement which would involve a modification of the Agreement and could be effected only by amendment pursuant to Article XVII.

No evidence has been found that the Charter of the United Nations was intended to modify the Articles of Agreement of the Fund nor were any conflicts between these instruments indicated when they were presented to the various governments. An examination of the Charter and the report of the Preparatory Commission of the United Nations indicates clearly that the United Nations has no authority whatever over the annual administrative budget of the Fund.

Paragraph 3 of Article 17 of the Charter states:

"The General Assembly shall consider and approve any financial and budgetary arrangements with specialized agencies referred to in Article 57 and shall examine the administrative budgets of such specialized agencies with a view to making recommendations to the agencies concerned."

The definition of specialized agencies in Article 57 is broad enough to include the International Monetary Fund. That article provides:

"1. The various specialized agencies, established by intergovernmental agreement and having wide international responsibilities, as defined in their basic instruments, in economic, social, cultural, educational, health, and related fields, shall be brought into relationship with the United Nations in accordance with the provisions of Article 63.

"2. Such agencies thus brought into relationship with the United Nations are hereinafter referred to as specialized agencies."

Article 63, which specifies the manner in which such specialized agencies shall be brought into relationship with the United Nations reads as follows:

"1. The Economic and Social Council may enter into agreements with any of the agencies referred to in Article 57, defining the terms on which the agency concerned shall be brought into relationship with the United Nations. Such agreements shall be subject to approval by the General Assembly.

"2. It may coordinate the activities of the specialized agencies through consultation with and recommendations to such agencies and through recommendations to the General Assembly and to the Members of the United Nations."

None of these provisions of the Charter confer upon the United Nations authority over the annual administrative budget of the Fund. Whatever arrangements are worked out between the two institutions must be by agreement between them and not by virtue of any authority of one over the other.

The report of the Preparatory Commission of the United Nations, in addition to making recommendations for the administration of the organization, contains a section entitled "Observations on Relations with Specialized Agencies" under its discussion of the Economic and Social Council. These observations appear on pages 44 - 46 of the Commission's report. Although the Commission did not conclude that the United Nations has any authority over the annual administrative budget of the Fund, it arrived at certain conclusions which seem to be at variance with the provisions of the Charter. In connection with paragraph 3 of Article 17, which is quoted above, the following portion of the Preparatory Commission's report is significant:

"27. The first part of paragraph 3 of Article 17 envisages varying degrees of relationship, from complete financial integration downwards, and the second part is conceived as the minimum degree of relationship on the budgetary and financial side which should be included in the agreements with the specialized agencies. It may be convenient, therefore, to consider first the second part (examination of administrative budgets) which is mandatory.

"28. The meaning of the term 'administrative budget' has given rise to some discussion. It has been suggested that the use of the term might have been intended to underline the point made in paragraph 26 above, that it was the intention that the budgets should be examined from the angle of good administration and not of policy. It has also been pointed out that there is clearly an area of possible expenditure - such as the relief operations of the United Nations Relief and Rehabilitation Administration and the technical operations of the International Bank for Reconstruction and Development and the International Monetary Fund - which would not be suitable for this kind of examination. Even in such cases, however, the administrative costs of salary, office expenses and general expenditure of a recurring character, are comparable to those of other agencies, and their examination may lead to fruitful comparisons and contrasts. It is considered that the term ought not to be given a restrictive interpretation.

"29. It follows that all agreements with specialized agencies should include a provision referring to the power of the General Assembly to examine and make recommendations concerning their administrative budgets, and should also set forth a procedure for its implementation. The Advisory Committee for Administrative and Budgetary Questions would be the natural body to make the initial examination on behalf of the General Assembly. (See Chapter IX, Section 2, paragraph 6.) The representatives of specialized agencies should have a right to attend the meetings of the Advisory Committee whenever their respective budgets are under consideration. Where possible, the recommendations of the General Assembly should be made before, rather than after, the budget has been finally adopted by the constitutional organ of a specialized agency."

The conclusion of the Commission that review of annual administrative budgets by the General Assembly for the purpose of making recommendations to the specialized agencies is the minimum degree of relationship on budgetary and financial matters which should be included in agreements between the United Nations and these agencies is open to serious question. The Commission has read the second clause of the paragraph as if it were a separate sentence bearing only a slight relation to the first clause. In its opinion the first clause confers upon the General Assembly the power to consider and approve financial and budgetary arrangements negotiated by the Economic and Social Council. The second clause is quite similar to the first and should be given the same effect. A fair construction of the language is that when the Economic and Social Council negotiates agreements with specialized agencies concerning financial and budgetary arrangements and such agreements call for examination by the United Nations of administrative budgets, the General Assembly is the body which shall examine them.

It should be noted that the Preparatory Commission has not asserted that any power exists in the United Nations to examine the administrative budgets of specialized agencies in the absence of agreements with such agencies. Although solely as a matter of grammar such a construction would be possible in view of the language used in paragraph 3 of Article 17, it would obviously be inconsistent with the intention of the governments and would be in conflict with provisions of other international agreements such as the Articles of Agreement of the Fund. The Commission does, however, assert that this second clause operates as a limitation on the type of arrangements which can be made by the Economic and Social Council. This construction appears to be unsound. The whole paragraph deals with the respective jurisdictions of the Economic and Social Council and the General Assembly. It is not a directive to the Economic and Social Council to negotiate only agreements which permit examination of administrative budgets. If it were such a limitation, it would properly

appear in Article 63, which deals with the negotiation of agreements. The effect of the second clause is to confer upon the General Assembly authority to examine budgets presented pursuant to agreements negotiated by the Economic and Social Council. Moreover, the phrase "such specialized agencies" which is contained in the second clause does not refer to all specialized agencies. It merely refers to those of the specialized agencies with which agreements are negotiated by the Economic and Social Council and approved by the General Assembly providing for examination of annual administrative budgets.

It is concluded, therefore, that (1) the United Nations has no authority over the annual administrative budget of the Fund; (2) the Preparatory Commission of the United Nations has not asserted any such authority; and (3) the Preparatory Commission is not justified in its observation that the minimum type of agreement which can be made with specialized agencies should contain a provision for examination by the United Nations of annual administrative budgets.