



## Reforming UNSC and Bretton Woods

**For Prelims:** [UNSC](#), [Bretton Woods](#), [United Nations](#), [World War II](#), [IMF](#), [World Bank](#), [SDR](#), [WTO](#), [IGN](#).

**For Mains:** Reforming UNSC and Bretton Woods.

### Why in News?

Recently, at a press conference in Hiroshima, Japan, the [UN Secretary-General](#) has called for reforms in [UNSC \(United Nations Security Council\)](#) and **Bretton Woods Institutions**, citing that the current order is outdated, dysfunctional and unfair.

- In the face of the economic shocks from the Covid-19 pandemic and the [Russia-Ukraine Conflict](#), the said institutions have **failed to fulfil their core function as global safety nets**.

### What is the Bretton Woods System?

- **About:**
  - The Bretton Woods system was a monetary framework created in **1944 by representatives of 44 nations** at the Bretton Woods Conference in New Hampshire, USA. It aimed to establish **stability and cooperation in international Monetary after World War II**.
  - The Bretton Woods Agreement created two important organizations—the [International Monetary Fund \(IMF\)](#) and the [World Bank](#).
    - While the Bretton Woods System was dissolved in the 1970s, both the IMF and World Bank (**Bretton Woods institutions**) have remained strong pillars for the exchange of [International Currencies](#).

## INTERNATIONAL MONETARY FUND

- Estd. - 1944 (UN Bretton Woods Conference following Great Depression 1930s)
- Headquarters - Washington, DC, USA
- Functions -
  - » Global financial assistance
  - » Facilitate international trade
  - » Financing for developing countries
  - » Promotion of exchange rate stability
- Member States - 190 (India a founding member)

India's FM is the ex-officio Governor on the Board of Governors of IMF

- Special Drawing Rights (SDR) -
  - » IMF's intl. reserve asset to supplement the official reserves of its member countries (**not a currency**)

Currencies in SDR Basket - \$, €, £, ¥ (Yen) and CN¥ (Renminbi)

- IMF Quotas -
  - » Reflects a member country's relative position in world economy (India - 2.75%)
  - » Denominated in SDRs
- Flagship Publications -
  - » World Economic Outlook
  - » Global Financial Stability Report
  - » Fiscal Monitor
  - » External Sector Report

## World Bank Group (WBG)

- Estd. - Same as IMF
- Headquarters - Washington, DC, USA

**5 Institutions of WBG (estd.)**

- International Bank for Reconstruction and Development (IBRD) aka World Bank (1944)
- International Finance Corporation (IFC) (1956)
- International Development Association (IDA) (1960)
- International Centre for the Settlement of Investment Disputes (ICSID) (1966)
- Multilateral Guarantee Agency (MIGA) (1988)

**Functions**

- Provide loans, credits, and grants
- Investment, advice, asset management to companies/govts.
- Low/No-interest loans to Low-income countries
- Settle investment-disputes
- Insure lenders/investors against political risks

Membership of IMF is a prerequisite for membership of IBRD

- Twin Goals of WBG -
  - » Ending extreme poverty by 2030
  - » Boosting shared prosperity of the poorest 40% of the population in all countries
- Member States - 189 (India a founding member of IBRD, IFC & IDA)
  - » Ending extreme poverty by 2030

India is not a member of ICSID; claims it biased towards developed countries

- Major Publications -
  - » Human Capital Index
  - » World Development Report



### ■ Need for Reforming Bretton Woods Institutions:

- While these institutions performed well over their first 50 years - they have been struggling in **more recent times as problems of rising inequality, financial instability** and **Protectionism** have re-emerged.
- The threat of **Climate Change** and ecological stress, rising disasters and a more interconnected world with new threats like cyber-security and pandemics require a **new International Financial Architecture**.
- There has been biases in fund allocation and unregulated **Special Drawing Rights (SDRs)**, the IMF allocated USD 650 billion in **SDRs** during the pandemic.
  - The G7 countries, with a population of 772 million people, received USD 280 billion. The African continent, with 1.3 billion people, received only USD 34 billion.

## What is the United Nations Security Council?

### ■ About:

- The UN Security Council was established by the **UN Charter in 1945** and is one of the **6 principal organs** of the United Nations.
- UNSC has 15 members: 5 permanent members (P5) and 10 non-permanent members elected for 2-year terms.
  - **The P5 are:** US, Russia, France, China and the UK.
- India has been a non-permanent member of the Council during 1950-51, 1967-68, 1972-73, 1977-78, 1984-85, 1991-92, 2011-12 and for the **8<sup>th</sup> time**, entered the UNSC in 2021 and was on the council for the term **2021-22**.

### ■ Issues with the UNSC:

- **Creating Problems for the Developing Countries:**

- Developing countries are facing problems in three dimensions: Moral, power-related, and practical.
- A systemic and unjust bias in global economic and financial frameworks in favour of rich countries is generating “great frustration in the developing world”.
- **Limits the Representation:**
  - The absence of Africa, as well as countries like India, **Germany, Brazil, and South Africa**, from the permanent membership of the UN Security Council is seen as a **significant drawback**.
  - It limits the representation of **important nations and their perspectives** on global issues, hindering effective decision-making on complex and interconnected problems.
- **Misuse of Veto Power:**
  - The P5 have anachronistic veto power in the UNSC which has faced **criticism for being undemocratic and limiting the Council's ability** to make important decisions when any of the P5 disagrees.
  - Many argue that **such elite decision-making structures are not suitable** for the current global security landscape.

## What can be done to Address these Issues?

### ▪ Bretton Woods:

- There is a need to reshape and revitalize three global institutions -the IMF, WBG and the **WTO (World Trade Organization)** where:
  - The IMF will focus on macroeconomic policy and financial stability, with **stricter surveillance of advanced economies** and their impact on global crises.
  - The restructured WBG will prioritize **sustainability, shared prosperity, and leveraging private capital** effectively. It should work with others to address global challenges and act as a wholesaler of finance.
  - A stronger WTO is needed for **fair trade, faster dispute resolution**, and the ability to respond swiftly to emergencies.
- The system needs **more automatic and rule-based financing mechanisms** to avoid delays and political influences.
- There needs to be **regular calibrated SDR issues, global pollution taxes, and financial transaction taxes**.
  - A well-structured G-20 could provide overarching guidance to the Bretton Woods system and its interactions with other institutions.

### ▪ UNSC:

- There is a need to ensure equal representation for all regions, including Africa, along with decentralization of power and authority, which will allow nations from all regions to **voice concerns related to peace and democracy** in their countries, making **decision-making more representative and democratic**.
- The focus should be on addressing global issues rather than **preserving the privileges of the P5 nations**.
- Urgent correction is needed to balance power between the P5 and the rest of the world, **ensuring a more democratic and legitimate governance of the UNSC** for international peace and security.
- The **IGN (Intergovernmental Negotiation) process**, which discusses UNSC reform, should be revised and re-energized, avoiding procedural tactics that hinder progress.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

### Prelims:

**Q. How is the United Nations Monetary and Financial Conference wherein the agreements were signed to set up IBRD, GATT and IMF, commonly known? (2008)**

- (a) Bandung Conference
- (b) Bretton Woods Conference

- (c) Versailles Conference
- (d) Yalta Conference

**Ans: (b)**

**Q. With reference to the International Monetary and Financial Committee (IMFC) consider the following statements: (2016)**

1. IMFC discusses matters of concern affecting the global economy, and advises the International Monetary Fund (IMF) on the direction of its work.
2. The World Bank participates as observer in IMFC's meetings.

**Which of the statements given above is/are correct?**

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Ans: (c)**

**Q. "Gold Tranche" (Reserve Tranche) refers to (2020)**

- (a) a loan system of the World Bank
- (b) one of the operations of a Central Bank
- (c) a credit system granted by WTO to its members
- (d) a credit system granted by IMF to its members

**Ans: (d)**

**Q. The Security Council of UN consists of 5 permanent members, and the remaining 10 members are elected by the General Assembly for a term of (2009)**

- (a) 1 year
- (b) 2 years
- (c) 3 years
- (d) 5 years

**Ans: (b)**

**Mains:**

**Q. Discuss the impediments India is facing in its pursuit of a permanent seat in UN Security Council. (2015)**

**Q. The World Bank and the IMF, collectively known as the Bretton Woods Institutions, are the two inter-governmental pillars supporting the structure of the world's economic and financial order. Superficially, the World Bank and the IMF exhibit many common characteristics, yet their role, functions and mandate are distinctly different. Elucidate. (2013)**

**Source: DTE**

