

“Explaining IMF and World Bank Relationship”

Prepared by: Domenico Lombardi (University of Oxford, The Brookings Institution) & Bessma Momani (University of Waterloo, Centre for International Governance and Innovation)

Prepared for: The Political Economy of International Organizations (PEIO)

January 28 – 30, 2010, Washington DC, Georgetown University

I. Introduction

Civil society actors and borrowing countries have often complained that the IMF was committing ‘mission creep’: overstarching into policy areas that were not in the IMF’s original mandate, often into areas commonly viewed as World Bank terrain and leading to undesirable outcomes.¹ The theoretical literature has inadequately explained this overlap. The purpose of this paper is to unpack the reasoning behind IMF and World Bank overlap, or collaboration as it has been called by creditors and proponents, and attempt to build on a thin theoretical literature on this issue.

The IMF and World Bank relationship has demonstrated that throughout their nascent histories, both IMF and World Bank staff have often been pressed into non-traditional policy areas by creditor countries who wanted to further safeguard the IMF’s resources. They also believed that borrowing countries needed to adopt the kinds of liberalization policies prescribed. Using qualitative content-analysis of key policy statements and documents from the G7, G24, World Bank and IMF internal staff reports, and archival material, this paper will argue three points. First, the IMF creditor states pushed the IMF staff into non-traditional policy areas, often referring to this as needing ‘IMF-World Bank collaboration’. Second, the IMF borrowing states protested this IMF involvement in World Bank policy areas, referring to this as ‘obtrusive’ or ‘mission creep’. Finally, IMF staff remained ambivalent about stepping into World Bank policy areas and instead argued for clearer ‘jurisdictional scope’ for the two organizations.

In current IMF and World Bank reform debates there are a variety of opinions on ways to move forward, but there appears to be recognition of the view that IMF and World Bank jurisdictions need to be better divided and more focused. Some have even called for shifting low-income countries to be exclusively covered in the domain of the World Bank.² The financial crisis has brought a rapid increase in IMF financing and a relative sidelining of the World Bank in implementing the creditor nations’ financial commitments. The IMF has been given something

¹ Stiglitz, Joseph E. 2002. *Globalization and its Discontents*. New York: Norton; International Financial Institution Advisory Commission (Meltzer Commission). 1998. Summary of Findings and Report.

² See Birdsall, Nancy, and John Williamson, 2002, *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture* (Washington: Center for Global Development and the Institute for International Economics); Bergsten, Fred, 2005, “Reform of the International Monetary Fund,” Testimony before the Subcommittee on International Trade and Finance, Committee on Banking, Housing, and Urban Affairs, US Senate (Washington).

to the tune of half a trillion from the G20 through bilateral lending arrangements.³ In parallel, the IMF has stepped up its concessional lending framework for low-income countries- an area that has traditionally been a World Bank area of expertise. Besides doubling concessional lending access limits, the Fund capacity has been increased to up to \$17 billion through 2014 from a concessional lending capacity of roughly 6 billion in 2008. This exceeds the call made by the G-20 in London to double concessional lending. Moreover, the Fund will grant interest relief, with zero payments on outstanding concessional loans through end-2011 while interest rates will regularly be reviewed so as to preserve the concessionality of the resources loaned to poor countries.⁴

Separately, the IMF has approved at a record pace two Special Drawing Rights (SDRs) allocations, following the G20 summit in London, of which approximately \$20 billion will flow to the low-income countries.⁵ To put this in perspective, the overall amount that key shareholders of the IMF have supported by far exceeds the World Bank's International Development Association (IDA) commitments and support to low-income countries, which totaled US\$14 billion in the fiscal year ended in June 2009. This may renew debate regarding the division of roles between the IMF and the World Bank.

Throughout all of the above debate, however, there is an absence of historical, systemic, and bureaucratic study of how we arrived at this state of affairs. Moreover, there is not enough theorizing about why overlap occurred. In an effort to contribute to international organization literature, this paper provides a historical examination to the question of why do the IMF and World Bank transcend into each others' policy areas.

II. Theory of IO Overlap

The theoretical literature on overlap in international organizations' jurisdictional scope is relatively thin. Much of the existing economic and legal literature is focused on trade, with less political science literature and little on finance and development.⁶ The trade literature often takes a legalistic approach to understanding the overlap issue, describing the overlapping border problem between different trade regimes, agreements, and organizations—the infamous 'spaghetti bowl'. Peter Rosendorff points of the need to strike a balance between having IOs

³ More details are available on the IMF's website at:
<http://www.imf.org/external/np/exr/faq/contribution.htm>.

⁴ More information is available at:
<http://www.imf.org/external/pubs/ft/survey/so/2009/POL072909A.htm>.

⁵ A general allocation of SDRs equivalent to about US\$250 billion became effective on August 28, 2009. Separately, a special SDR allocation of about US\$34 billion was made available on September 9, 2009, following the approval of the Fourth Amendment to the IMF Articles of Articles. More details are available at:
<http://www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm>.

⁶ Cédric Dupont and Manfred Elsig "Trade-And? The World Trade Organization's Fuzzy Borders: A Framework Paper" Draft Paper, January 2009

flexible enough to attract members while offering legal debt to keep existing members.⁷ With this nuanced understanding of institutional design, we can see that overlap is often expected to occur. Trade is then frequently studied from the state's perspectives and motives for 'forum shopping' where 'overlapping memberships' is key to understanding state behavior.⁸

The trade literature also engages in a legal-normative debate on whether there should be horizontal and vertical linkages between various trade regulatory bodies or organizations.⁹ It is important, however, to note that inter-organizational linkages can often be a good thing. As Kelly argues, inter-organizational linkages and accommodation can free up IO resources and allow more efficient use of expertise.¹⁰ Duplication of expertise and services, however, is another matter. Moreover, the question of which organization will show deference to the other organization is another important matter that Kelly also raises and that warrants examination.¹¹

International Relations literature has examined the motives and rationales for the design of international organizations, but rarely examines what it means when overlap occurs, particularly for the IOs themselves and the issue-area. Instead, the topic is often viewed from a state-centric perspective where scholars examine why particular IOs are chosen by states.¹² Nevertheless, a number of IR scholars have labeled this overlap phenomenon and explained some of the root causes behind IO overlap. Oran Young points out that institutional overlap, or 'horizontal institutional interplay' as he calls it, can be used to maximize social welfare but there are risks that interplay can also be manipulated and exploited by actors for their own strategic gains.¹³ Haas argues that 'substantive linkages' of issues will occur across regimes and organizations when consensual knowledge is shared among them.¹⁴

⁷ Rosendorff, B. Peter. 2005. "Stability and Rigidity: Politics and the Design of the WTO's Dispute Settlement Procedure." *American Political Science Review* 99 (3): 389-400.

⁸ Busch Marc 2007. "Overlapping Institutions, Forum Shopping, and Dispute Settlement in International Trade," *International Organization* 61(4):735-61.

⁹ Cédric Dupont and Manfred Elsig "Trade-And? The World Trade Organization's Fuzzy Borders: A Framework Paper" Draft Paper, January 2009

¹⁰ Kelly Claire 2006. "Power, Linkage and Accommodation: The WTO as an International Actors and Its Influence on Other Actors and Regimes." *Berkeley Journal of International Law* 24(1):79-128.

¹¹ Kelly Claire 2006. "Power, Linkage and Accommodation: The WTO as an International Actors and Its Influence on Other Actors and Regimes." *Berkeley Journal of International Law* 24(1):79-128.

¹² Abbott, K. and Snidal, D. (2000) 'Hard and soft law in international governance', *International Organization* 54: 421-56.

¹³ Young, Oran R. 2002. *The Institutional Dimensions of Environmental Change: Fit, Interplay, and Scale*. Cambridge, Mass.: MIT Press.

¹⁴ Haas Ernst 1980. "Why Collaborate? Issue-Linkage and International Regimes," *World Politics* 32:357-405.

Some IR scholars have explained that the encroachment of IO policies into non-traditional areas can be explained by the general trend toward increased legalization in international relations.¹⁵ Raustiala and Victor explain this as a “regime complex” where overlapping, nonhierarchical regimes and organizations form a whole are expected in an era of increased institutional density and increased international legalizations.¹⁶ Density of institutions can invariably lead to overlap among IOs. This overlap, moreover, can be the source of great tension among members and the IOs themselves. Despite this IR literature on institutional overlap, as Alter and Meunier point out, scholars have focused on the *source of overlap*- what they term as ‘international regime complexity’- rather than explaining the *consequences* of IO overlap.¹⁷

In a special symposium, Alter and Meunier’s framing paper synthesized a collection of case-studies that attempted to discern the consequences of IO overlap. As Alter and Meunier pointed:

“Sometimes complexity empowers powerful states actors, while at other times NGOs and weaker actors gain from the overlap of institutions and rules. Sometimes overlap introduces positive feedback effects that enhance cooperation and the effectiveness of any one cooperative regime. Sometimes, however, complexity introduces unhelpful competition across actors, inefficiencies, and transaction costs that end up compromising the objectives of international cooperation and international governance”.¹⁸

Across the various issues, there was no explicit pattern or consistent finding, but the insight into the variability across the cases remains of great interest.

Agency theories, however, have given more ontological weight to IOs and have focused on the bureaucratic explanations for why there is increased overlap by pointing to either the network of epistemic communities or the organizational drive toward mission creep. Public choice theory emphasize a staff-driven explanation for why overlap occurs: IO staff want to aggrandize their power in their respective organizations and in their respective issue-areas by expanding their functional scope. Principal-agent theories argue that IOs can act autonomously when principals give them a ‘zone of discretion’ in which to maneuver.¹⁹ Principals, however, reign in their agents when dysfunctional behavior sets in. This is commonly referred to as ‘agency slack’ or ‘mission creep’.

¹⁵ Goldstein Judith, Miles Kahler, Robert Keohane and Anne-Marie Slaughter 2000. “Introduction: Legalization and World Politics,” *International Organization* 54(3):385-399.

¹⁶ Raustiala, K. and Victor, D. (2004). The regime complex for plant genetic resources. *International Organization* 58, 2, 277–309.

¹⁷ Alter Karen and Sophie Meunier 2009. “The Politics of International Regime Complexity” Symposium. *Perspectives on Politics* 7 (1), 2009: 13-24.

¹⁸ Alter Karen and Sophie Meunier 2009. “The Politics of International Regime Complexity” Symposium. *Perspectives on Politics* 7 (1), 2009: p.14.

¹⁹ Hawkins, D. et al. (2006) “States, International Organizations, and Principal-Agent Theory” in *Delegation and Agency in International Organizations* Hawkins et al. (Eds.) Cambridge: Cambridge University Press

Using sociological insights into international organizations, Barnett and Finnemore similarly argue that IOs can at times be autonomous in international politics and therefore exhibit dysfunctional and pathological behavior that runs against the interests of their masters but serves the interests of its bureaucracy. With the authority derived from their monopolization of expertise, IOs can act quite autonomous from their political masters and produce policy ideas quite independently. As Barnett and Finnemore point out, this “logical outgrowth” of IO mandates is a “natural” form of mission creep that organizations will exhibit.²⁰ The ‘blame’ so to speak for overlap can therefore be induced by intra-organizational dynamics rather than in external stimuli or political directives from state capitals. But as these authors also point out, IO staff can “...resist opportunities and even explicit invitations to expand,” when the tasks demanded of them by political masters does not mesh with their normative paradigm.²¹ As Weaver and Leiteritz point out in their study of the World Bank, the staff resisted external political pressure to enact the reforms envisioned in the strategic compact because it did not fit their normative paradigm and instead adapted or entrenched exiting policies.²² ‘Organizational hypocrisy’, as noted by Weaver, becomes a natural response to organizational change that serves to accommodate, consciously or not, an organization’s bureaucratic culture.²³

In *Globalizers*, Ngaire Woods has pointed out that the IMF-World Bank do engage in ‘turf wars’, but often this is over who should ‘take the lead’ rather than serious ideological differences.²⁴ Indeed, in the study of development and finance, it has been frequently argued that the international financial policy community exhibits “policy coherence” where developed countries have a consistent view of what development ought to look like in the developing world. Loosely labeled the ‘Washington Consensus’ since the 1990s, it is argued that developed countries and their IO agents share a set of views about ideal economic development in the developing world and shape their policies and prescriptions around these views. Not surprisingly, critical theory, dependency theory, and economic structuralists have provided ample commentary on IMF-World Bank overlap with each other and the interests of the capitalist economic system. Yet, studying the consequences of IO overlap and linking this theoretical discussion in IO literature is at an early stage and warrants added empirical research to which this study of IMF-World Bank seeks to contribute.

²⁰ Barnett, M. and Finnemore, M. (1999) “The Politics, Power, and Pathologies of International Organizations”, *International Organization*, 53 (4). Barnett, M. and Finnemore (2004), *Rules for the World: International Organizations in Global Politics*, Ithaca: Cornell University Press.

²¹ Barnett, M. and Finnemore (2004), *Rules for the World: International Organizations in Global Politics*, Ithaca: Cornell University Press, p.158..

²² Catherine Weaver and Ralf Leiteritz. 2005. “‘Our Poverty is a World Full of Dreams’: Reforming the World Bank.” *Global Governance: A Review of Multilateralism and International Organizations*, vol.11, no.3 (Summer): 369-388

²³ Catherine Weaver. *Hypocrisy Trap: The World Bank and the Poverty of Reform*. Princeton: Princeton University Press, 2008.

²⁴ Woods, N. (2006). *The Globalizers: the IMF, the World Bank and Their Borrowers*. Ithaca: Cornell University Press.

III. Learning How to Co-exist: Striking the Right Balance Between Independence and Interdependence

A. Carving a Shared Understanding

Following the Bretton Woods Conference, one of the first tasks of member states was to develop appropriate relations between the IMF and World Bank. The challenge was to develop the type of relationship which would recognize the large area of common interest requiring common policies but permit day-to-day operational independence. A joint committee of executive directors of both boards was formed to review the issue. The Committee recommended that the Bank president and the Fund managing director, and their secretaries, should assume responsibility for day-to-day liaison between the two boards. The joint committee further recommended that each Secretary should be permitted to exchange documents that might be of interest to the other executive board.²⁵

The earliest instance when the two institutions faced the issue of institutional overlap was in 1949. In a memorandum addressed to the World Bank president, the then chief economist reported that the IMF had raised a jurisdictional issue objecting that the Bank, in the case of Lebanon, had offered its advice on monetary and exchange rate policies found to be central to the country's economic problems.²⁶ The response of the IMF and World Bank staff was an effort to protect their institutions' respective field of competence. After several years of staff level negotiations on this issue of institutional overlap, the two institutions issued the 1966 Statement on Competence through dual memoranda by the IMF managing director and the World Bank president.²⁷ The memoranda acknowledged that the Bank had primary responsibility for the "composition and appropriateness of development programs" while the IMF for exchange rate policies and, more broadly, for stabilization programs, requiring the staff of each agency to inform itself of the views of the other agency whenever a given matter would fall within the latter's area of primary responsibility. The memoranda stated that each institution would not engage with member countries in a critical review of issues falling within the other institution's primary responsibilities without the latter's prior consent and that staff of each institution would adopt the view of the institution with primary responsibility as a working basis for its own work. The memoranda also acknowledged the existence of broad areas of shared responsibility, such as issues concerning financial institutions, capital markets, domestic savings, and foreign debt. In this vast area of common interests, the memoranda stated that, while a full uniformity of views was not to be expected, the objective nonetheless was to reduce to a minimum differing views or conclusions. The staff memoranda were distributed to executive directors of both institutions for

²⁵ The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation, Vol I: Chronicle by Keith Horsefield, p 145.

²⁶ Co-operation between Bank and Fund, Memorandum to the President, February 11, 1949. A related memorandum was addressed to the IMF Managing Director by its own staff. See Cooperation of Fund and Bank on Advice to Members, Memorandum to the Managing Director, March 2, 1949.

²⁷ Memorandum on IBRD/IMF Collaboration, December 13, 1966.

information and no discussion took place.²⁸ By now, the framework for IMF and World Bank has been shaped in its three pillars: i) a clear demarcation of areas of primary responsibilities; ii) the recognition of large overlapping areas of common concerns (shared interests); and, iii) a set of procedures for the exchange of documents and information.

With the 1966 memorandum in place, the IMF and the World Bank staff would preserve the jurisdictional scopes through close and continuous contact.²⁹ This was furthered a few years later in a recommendation by the 1969 Pearson Commission, that the IMF and the World Bank, “in countries where both operate, adopt procedures for preparing unified country assessments and assuring consistent policy advice”³⁰; the heads of the two institutions issued a joint memorandum that supplemented and reinforced existing procedures for collaboration between the two staffs. Beyond reaffirming the 1966 understanding regarding the demarcation of areas of primary responsibility as having served well the interests of the two institutions and their member countries, the Pearson Commission elaborated a set of procedures regarding briefing and debriefing of missions, circulation of draft documents, timing and cross-participation of staff in missions aimed at improving the flow of information between the two institutions. To reiterate, the IMF and World Bank staff and their management wanted to keep their respective jurisdictional scopes through procedures of open and consistent inter-organizational communication.

The collapse of the Bretton Woods system of fixed exchange rates, the first oil shock in 1973, steep rise in global commodity prices, and the increase of creditors from the developing countries in the 1970s had created new challenges for IMF and World Bank independence. The changes in the international economic environment in the 1970s had increased the interdependence between balance of payments and development problems prompting greater “institutional interplay.” In fact, the IMF and the World Bank responded with new initiatives that increased their focus on areas of common concerns whose growing overlap prompted another review of their cooperating framework. For the IMF, moreover, developing countries would become its main clients as the fall of the Bretton Woods system would entail the loss of industrial countries among its borrowing clients. IMF-supported stabilization and adjustment programs relied to a greater extent on supply side policies and improvements in the allocation of resources. In particular, the IMF creditors devised the Extended Fund Facility, introduced in 1974 and revised in the 1980s, which was designed to tackle balance of payments problems over a longer period by recognizing that attention would be paid not only to aggregate demand management but also to measures that increased the supply of productive resources and the efficiency with which they were used. The World Bank also began to emphasize increasingly the domestic policy and institutional environment for investment in its lending operations since in the worsened international environment it was evident that even good investment did not yield

²⁸ However, an earlier document, *Further Steps for Collaboration with the Fund*, January 19, 1966, detailing procedures through which the two staffs would collaborate had been discussed by their respective boards.

²⁹ *Further Steps for Collaboration between the IMF and the IBRD*, February 18, 1970.

³⁰ *Partners in Development: Report of the Commission on International Development* (“Pearson Commission”), 1969, Washington: World Bank, p. 230.

the requisite benefits expected from them in an unfavorable domestic policy environment.³¹ In particular, Bank-supported structural adjustment programs aimed at increasing the efficiency of both the existing productive resources and the current level of investment and thus had an impact on output growth and the balance of payment. The Bank conditioned its structural adjustment loans (SALs) on measures that addressed the underlying, structural causes of members' balance of payments deficits. Without consistent macroeconomic policies designed to correct external disequilibrium by restoring a more sustainable balance between aggregate supply and demand in the economy, the intended impact of the measures contained in the structural adjustment programs would not be realized. Therefore, to ensure that appropriate aggregate demand and exchange rate policies were being pursued, the approval of SALs has been associated with the existence of a Fund program. Now both the Fund and the Bank were providing balance-of-payment loans with medium-term amortization periods. Both programs supported macroeconomic and microeconomic adjustments, and focused on improving external as well as internal accounts. Borrowing countries would protest this and urge the IMF to keep to its core areas of expertise. In a 1978 G24 communiqué, members argued that revised IMF conditionality guidelines of 1979 should... "be designed so as to limit the performance criteria only to relevant macro-economic variables, paying due regard to the growth considerations of member countries, and their prevailing economic and social situations."³²

IMF and World Bank collaboration in their financial facilities was recognized by the management of two institutions in a review of Bank-Fund operations done in the mid-1980s. The two institutions reviewed the arrangements for their collaboration and found existing principles and provisions to be broadly valid. Parallel instructions were issued by the management of each institution to their respective staff.³³ In practice, however, while the areas of responsibility of the two institutions were not altered, the traditional distinguishing lines between Bank concerns and Fund concerns were starting to overlap because of the increased interdependence between stabilization, adjustment and economic growth. "The expertise and purview of each institution remain distinct, yet it is increasingly a distinction regarding the emphasis and balance of the respective programs, and this transcends any formal characterization of perspective (long vs. short term), orientation (supply vs. demand), or analysis (real vs. monetary)."³⁴

The increased overlap in responsibilities and resulting increase in collaboration between the staffs of the Bank and the Fund would fuel borrowing countries' concerns over cross-conditionality: before receiving assistance from one institution a country should meet the conditions established for benefiting from the resources of the other. This had also led to close consultations between the two staff and managements of both institutions.³⁵ The most obvious example of what Feinberg defines consultative cross-conditionality is the close linkage between the World Bank structural and sector loans and IMF programs. Another form of linkage might be termed interdependent cross-conditionality: when the Bank and the Fund both consider the same

³¹ Einhorn, Jessica. 2001. "The World Bank's Mission Creep." *Foreign Affairs* 80(5):22-35.

³² 1978 Washington Communiqué: <http://www.g24.org/09-78ENG.pdf>

³³ For the World Bank, see Structural Adjustment Lending—Collaboration with the IMF, June 9, 1980.

³⁴ Progress Report on Adjustment Lending, World Bank, 1984, para. 39.

³⁵ (Feinberg, 1988)

policy variable or variables for their programs in a member state. Such variables might be, for instance, realistic exchange rate or, more recently, the governance framework of borrowing countries, especially if low-income. Finally, Bank and Fund lending can reflect an indirect financial linkage. If the Fund withholds credit, the member may find itself without the counterpart funds needed to proceed with Bank projects. Feinberg points to such forms of interactions to argue that in many instances Bank-Fund relations may be quite structured and go well beyond “collaboration.”

Throughout the debt crisis and structural adjustment period, creditor countries pushed for enhanced IMF and World Bank collaboration. The IMF’s key creditors issued a communiqué at the 1983 G7 summit, stating that: “We encourage closer cooperation and timely sharing of information among countries and the international institutions, in particular between the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the GATT.”³⁶ This was reiterated the following year at the G7 meeting in London.³⁷ To further this, the UK executive director at an IMF board discussion had proposed a long list of steps to deepen collaboration, including the preparation of a consistent country economic analysis, informal joint meetings or seminars of the two boards. The UK proposal was well-received from the two other joint directors (France and Belgium) but it only received some “lukewarm” support from the others.³⁸ Borrowing members again protested the potential for mission creep. In its 1984 communiqué, the G24 noted that: “coordination between the World Bank and the International Monetary Fund should be in keeping with their respective roles, and not become a means for exerting a concerted pressure on borrowing countries.”³⁹ The G24 was relieved that the UK proposal was not implemented:

[G24] Ministers expressed satisfaction at the decision not to establish any formal relationship between the Bank and the Fund or a joint committee of the two institutions and emphasized that coordination between the World Bank and International Monetary Fund should not become a means for enforcing any type of cross-conditionality but should help place developing countries on the path of growth and development.⁴⁰

Yet again in 1985, the US IMF Executive Director Charles Dallara proposed that low-income countries would benefit from integrated support by the Bank and Fund under a series of two-year macroeconomic and adjustment programs. Although each board would approve any use of the funds coming from its institution, Dallara’s approach envisaged a highly integrated approval process.⁴¹

³⁶ Williamsburg Summit Declaration on Economic Recovery-
<http://www.g7.utoronto.ca/summit/1983williamsburg/communique.html>.

³⁷ 1984 London Summit Economic Declaration-
<http://www.g7.utoronto.ca/summit/1984london/communique.html>

³⁸ Polak (1994).

³⁹ Washington Communiqué 1984: <http://www.g24.org/09-84ENG.pdf>

⁴⁰ Oct 1985, Communiqué 32: <http://www.g24.org/10-85ENG.pdf>

⁴¹ Boughton, James, 2001, *The Silent Revolution*, Washington: International Monetary Fund.

In 1986, the IMF board approved the Structural Adjustment Facility (SAF) that would be based on a policy framework paper (PFP) to be developed in close collaboration of the applicant country and the staffs of the two institutions. The Bank board would discuss PFPs, which would then be approved by the Fund board as a requirement for accessing SAF. However, a similarly close association between PFPs and IDA was not established, despite a further push by the US. At the 1987 G7 summit in Venice, the Fund's key creditors stated that: "We support the central role of the IMF through its advice and financing and encourage closer cooperation between the IMF and the World Bank, especially in their structural adjustment lending".⁴² A few months later, at the IMF and World Bank annual meetings, the US Treasury Secretary Baker proposed the formation of a joint committee of the two executive boards to review PFPs. At the objection of borrowing countries, the Bank resisted establishing such a linkage on the various grounds including cross-conditionality and that its lending cycle is different from that of the Fund.⁴³

The case of Argentina in 1988 would cause a rift between IMF and World Bank staffs. Against the backdrop of Argentina's poor performance in previous IMF programs and the Fund's negative assessment of the policies put forward by this country, IMF staff opposed the risky World Bank loan. For the first time in IMF-World Bank history, the World Bank approved a \$1.25 billion loan to Argentina without an IMF agreement in place. This inter-organizational rift had generated new revision to the cooperation framework between the two institutions. In the ensuing concordat draft circulated by the Fund staff, the goal was to ascribe all macroeconomic responsibilities to the IMF. This was unusually aggressive, but the dispute over the "Argentine crisis" had pushed the Fund to claim its territory and responsibilities more forcefully. Intense negotiations between the two heads and their respective boards ensued with the aim of reaching agreement and closing a rift between the staffs that had received wide media attention at the time. In the end, the IMF and World Bank agreed to yield to the judgment of the other institution if the matter would fall in the latter's area of responsibility. However, and most importantly from the Bank's perspective, each institution would retain freedom of judgment in case difference of views persisted but the respective managements would consult their respective executive boards before proceeding.⁴⁴

Throughout the debt crisis of the 1980s, the IMF and World Bank were pushed by creditors to cooperate on conditionality to make sure that adjustment lending programs were consistent. Creditors were mainly concerned with how IMF and World Bank overlap would affect programs and results in low-income countries. The Mexican crisis of 1994 and the Asian crisis of 1997-1998 would turn creditors' attention to the issue of not just what policies were enacted, but also how they were implemented and supervised. Key creditors now wanted enhanced IMF-World Bank cooperation in preventing future financial disruptions, monitoring liberalization in emerging market economies, and guiding institutional reforms.

⁴² 1987 Venice Summit Economic Declaration-
<http://www.g7.utoronto.ca/summit/1987venice/communique/developpe.html>.

⁴³ World Bank, Policy Framework Papers: A First Review of Experience in the World Bank, March 1988.

⁴⁴ Polak (1994) provides more details on the negotiations and the background to reach this agreement, which he refers to as the Concordat.

IV. Stepping onto Each Other's Foot: Collaboration or Overlapping?

A. Getting Closer: Bank-Fund Relationship From the Debt Crisis to the Asian Crisis

Throughout the turbulent 1990s, creditor countries pushed for stronger IMF-World Bank cooperation in terms of scope, instruments, and focus countries. While many low-income countries had adopted structural conditionality throughout the 1980s under Extended Fund Facility (EFF) and Enhanced Structural Adjustment Facility (ESAF) programs; in the 1990s, many emerging market economies and transition economies would also be forced to adopt controversial policies that many labeled as 'mission creep'. According to an external Fund study, for example, it was noted that staff missions had broadened their scope to include discussions over "...trade liberalization, labour markets, offshore banking supervision, tax reforms, expenditure streamlining, income distribution, poverty, land reform, environment, and so forth"⁴⁵. This gave rise to the accusation that the IMF was committing mission creep into public policy. Although much of this advice about the strategy of privatization, banking systems, and tax structures was useful, it was also controversial. More importantly for the objectives of this paper, we argue that the growth of IMF-World Bank overlap was pushed for by the creditor states.

In the case of transition economies, the United States and other G7 members encouraged the IMF, as opposed to the World Bank or other multilateral agencies, to take the lead. As Martin Feldstein explains:

[Former socialist states'] officials, bankers, and economists had little or no experience with market economics. The IMF could therefore provide useful advice on a much wider range of economic issues than it had previously done in Latin America or elsewhere in the world. Much of this advice about the strategy of privatization, banking systems, and tax structures was useful. Much of it was also controversial. But while economists outside the fund had a variety of views about the right way for Russia and the other countries of Eastern Europe and the former Soviet Union to proceed, the IMF was generally able to get its way because it brought substantial financial rewards to countries that accepted its advice.⁴⁶

In many respects, the creditor states led by the United States wanted stronger IMF involvement with the transition countries as a way to avoid a 'grand bargain' with the former Soviet states. In effect, the US encouraged Fund involvement in the ex-Soviet states to achieve burden-sharing and avoid the ugly question of a Marshall-like plan.⁴⁷ In response, the Fund staff prescribed to former socialist states a multitude of structural, macroeconomic, and microeconomic policies for

⁴⁵ IMF. (1999), External Evaluation of IMF Surveillance: Report by a Group of Independent Experts, Washington, DC: International Monetary Fund.

⁴⁶ Martin Feldstein, 'Refocusing the IMF', *Foreign Affairs* 77: 2, March/April 1998, p.21-22.

⁴⁷ Bessma Momani. "Another Seat at the IMF Table: Russia's IMF Executive Director" *International Journal*, (Fall, 2007)

completing the transition to market-led economies. This expanded scope of Fund work was then applied to other members.

In addition to a higher number of macroeconomic conditions, IMF advice has been known to include an increased number of microeconomic and structural conditions—areas that had been traditionally in the purview of the World Bank. But, in the wake of systemic crises sparked by financial market failures in Mexico for example, microeconomic and structural conditions have been included in loan agreements on the grounds that these factors also affect macroeconomic outcomes. Throughout the 1990s, countries of systemic importance, or the ‘too-big-to-fail’ countries, became large borrowers of the Fund. This captured the attention of powerful Fund creditors. The default of too-big-to-fail countries would cause systemic crises; the failure of these countries’ financial systems could spark contagion on international capital markets. The 1994 Mexican crisis highlighted the need for the Fund to pursue a better integration between macroeconomic and financial surveillance.

B. Collaboration in Reverse Order: Strengthening IMF Surveillance Through the World Bank

After the Asian crisis and the lingering taste of the Mexican crisis, the G7 wanted the IMF to step up its expertise on financial surveillance. In 1998, the G7 issued its communiqué: “We support measures to improve the IMF’s capital markets expertise, and to collect more information on levels of external debt as part of its regular surveillance work. In doing this, the Fund should collaborate with the World Bank, BIS and OECD.”⁴⁸ Moreover, a year later, G7 creditors added that: “Developing a system for surveillance of implementation of the codes and standards, built on the Article IV process of the IMF, involving close collaboration with the World Bank and the standard setting bodies. To this end, we call on the Fund to develop a mechanism for coordinating this liaison”⁴⁹ This was not necessarily welcomed by the borrowing countries, as noted by G24 ministers, who were concerned that the IMF would step over its mandate and force compliance.⁵⁰ Subsequently, the IMF and World Bank were pushed to develop a framework for assessing the compliance of member countries to international standards; for example in the areas of accounting, auditing, payment systems, banking supervision, and corporate governance.⁵¹ According to the latest IMF review in 2005, 723 assessments (that is, Reports on Observance of Standards and Codes—ROSCs) and updates have been completed in 122 countries since 1999. Most of them assess emerging market economies,

⁴⁸ 1998 Birmingham G8 Summit: Strengthening the Architecture of the Global Financial System-
Report of G7 Finance Ministers to G7 Heads of State or Government-
<http://www.g7.utoronto.ca/summit/1998birmingham/g7heads.htm>

⁴⁹ 1999 Germany: Report of the G7 Finance Ministers to the Koln Economic Summit-
<http://www.g8.utoronto.ca/finance/fm061999.htm>.

⁵⁰ Sept 25, 1999 Communiqué: <http://www.g24.org/09-99ENG.pdf>

⁵¹ See Lombardi, Domenico and Ngaire Woods, The Politics of Influence: An Analysis of IMF Surveillance, *Review of International Political Economy*, 15:5, 711 — 739

followed by advanced economies and other developing countries with their respective participation rates standing at 93, 87 and 50 per cent.⁵²

Moreover, the G7 put forward a proposal for the Financial Sector Assessment Program (FSAP) which is a voluntary assessment of member countries' stability of their banking system through stress test analysis. Like for ROSCs, this was not, however, universally applied. For example, the United States has yet to complete an FSAP. So while the creditors called for enhancing IMF-World Bank coordination in these surveillance functions, this was a lopsided application of standards. With hindsight, the financial crisis has shown that the greatest vulnerabilities in standards and oversight were actually in the creditor countries such as the United States.⁵³ The G7, nevertheless, praised this IMF-World Bank overlap in its 1999 communiqué: "We welcome the establishment of the Financial Sector Liaison Committee (FSLC) in September 1998, and the IMF-World Bank Financial Sector Assessment Program (FSAP), to enhance effective collaboration between the Fund and Bank in this area. The breadth and pace of these efforts need to be increased, by more effectively integrating the efforts and operations of the two institutions in the financial sector, also drawing on relevant expertise in national and international regulatory and supervisory bodies."⁵⁴ The rationale for IMF-World Bank overlap in the FSAPs, as explained in a report of the IMF's own evaluation office (IEO), were that "... , in light of the overlapping mandates of the two institutions on financial sector issues and the scarce technical expertise on such matters, considerable potential synergies could be attained by addressing stability and development aspects in a comprehensive manner and that combining the respective expertise of the two institutions would produce a more integrated analysis and set of recommendations."⁵⁵ The evaluation of the FSAPs was generally positive and the IEO found that this IMF-World Bank overlap had "...contributed significantly to the depth of analytical expertise and credibility of the findings in many, but not all, cases."

C. How Close Is Close Enough? Shaping the IMF's Role in Low-Income Countries

The IMF staff was also pushed by creditors, primarily the United Kingdom and Canada, into a debt forgiveness program that would later become the HIPC initiative. A small number of industrialized states, along with non-governmental organizations (NGOs), and eventually the World Bank converged in favour of a multilateral debt relief program for poor countries. They attempted to persuade powerful member states and the IMF to endorse a multilateral debt relief

⁵² The Standards and Codes Initiative – Is It Effective? And How Can It Be Improved?, 2005, Washington, DC: International Monetary Fund.

⁵³ In the IMF's own words "the [Financial Sector Assessment] program seeks to identify the strengths and vulnerabilities of a country's financial system; to determine how key sources of risk are being managed..." See <http://www.imf.org/external/np/fsap/fsap.asp> accessed on October 14, 2009. To date, preparation for an FSAP on the US financial system is under way.

⁵⁴ 1999 Germany: Report of the G7 Finance Ministers to the Koln Economic Summit-
<http://www.g8.utoronto.ca/finance/fm061999.htm>

⁵⁵ Independent Evaluation Office. 2006. *Report on the Evaluation of the Financial Sector Assessment Program*. Washington, DC: International Monetary Fund. P. 42. <http://www.ieo-imf.org/eval/complete/pdf/01052006/report.pdf>

programme.⁵⁶ The creditors assigned the IMF and the World Bank staff the responsibility to find a means of cooperating on identifying and classifying countries that should be eligible for debt relief. Yet, the IMF staff, trained as neoclassical economists and socialized within a technocratic organizational culture was generally hesitant to adopt HIPC. Staff and management, who both demonstrated trepidation toward the idea of debt relief from the very beginning, would endorse HIPC after pressure from creditor states.⁵⁷ The UK, Nordic countries, Canada, and eventually the United States pushed for HIPC, while Germany, Japan, France, and Italy wanted little to do with debt relief at the IMF.⁵⁸

Key creditor states further pushed the IMF staff into assessing HIPC eligible members' public spending in order to safeguard resources committed through the HIPC initiative against the needs of such countries on social policies such as health and education. Specifically, at the G7 meeting in Lyon in 1996, key creditor states noted that: "The World Bank and the IMF are cooperating more closely with tangible results, for example in their joint studies on debt and public spending. Collaboration among the heads of the multilateral development banks has been intensified."⁵⁹ While the issue of information collection and issuing joint studies on debt is something that is related to the IMF's core mandate, that of cooperating on public spending is not. Specifically, to understand public spending requires an analysis of the composition and the efficiency of public expenditures. In many ways this has been a traditional area of the World Bank, whose studies on public expenditures are highly regarded. The IMF entrance into this area represented a new and unwelcomed development by the World Bank.

The creditor states pushed the IMF into mission creep again. At the G7 meeting in 1997, it was stated that:

"We urge the IMF and the multilateral development banks to strengthen their activities to help countries fight corruption, including measures to ensure the rule of law, improve the efficiency and accountability of the public sector, and increase institutional capacity and efficiency, all of which help remove economic and financial incentives and opportunities for corrupt practices. We support and encourage the IFIs in their efforts to promote good governance in their respective areas of competence and responsibility."⁶⁰

⁵⁶ See Bessma Momani "Internal or External Norm Champions: The IMF and Debt Relief" in *Owning Development* S. Park and A. Vetterlein (Eds) Cambridge University Press, (Forthcoming).

⁵⁷ See Bessma Momani "Internal or External Norm Champions: The IMF and Debt Relief" in *Owning Development* S. Park and A. Vetterlein (Eds) Cambridge University Press, (Forthcoming).

⁵⁸ See Bessma Momani "Internal or External Norm Champions: The IMF and Debt Relief" in *Owning Development*, S. Park and A. Vetterlein (Eds) Cambridge University Press, (Forthcoming).

⁵⁹ 1996 Lyon Summit Economic Declaration-
<http://www.g7.utoronto.ca/summit/1996lyon/communique.html>

⁶⁰ 1997 Denver Summit of Eight-Confronting Global Economic and Financial Challenges,
<http://www.g7.utoronto.ca/summit/1997denver/confront.htm>

In reference to fighting corruption and improving the institutional framework for policymaking, the G7 wanted the IMF and the World Bank staff to develop and monitor progress in the areas of good governance and institutional development. Much of these principles would be monitored in the Poverty Reduction Strategy Paper (PRSP) process. In the context of the HIPC initiative, creditors requested that the IMF and World Bank staff jointly assess the HIPC countries' PRSPs as a basis for providing concessional resources. The HIPC process required all low-income debtor countries eligible to receive debt relief to borrow through the Poverty Reduction and Growth Facility (formerly the Enhanced Structural Adjustment facility) and to comply with their own PRSP. The PRSPs required low-income countries to 'take ownership' of their own policies by consulting with stakeholders and crafting their own programs. IMF staff were resistant to get involved in the PRSP process because as macroeconomists the IMF staff has had a difficult time in providing the expertise required to adequately monitor the kinds of changes needed. In a 1998 address, then managing director Camdessus had noted, "...we recognize a need to continue to deepen our attention to social policies in partnership with the authorities and with other official agencies and the NGOs. *But we, in the Fund, are mainly economists, particularly attentive to macroeconomic realities.*"⁶¹

The resistance of IMF staff and management to undertake poverty related policy assessments were further noted in an Independent Evaluation Office study on the PRSPs. The IEO noted that the IMF staff did not see the PRSPs "...as implying fundamental changes in the way the IMF would contribute to a broad-based policy debate on the macroeconomic aspects of countries strategies."⁶² In the IEO survey, only 20% of Fund staff had believed that the PRSPs changed policy discussion with country officials.⁶³ Part of the problem was that Fund staff were still required by management and creditors to achieve macroeconomic results when the agreements expired in 2 to 3 years. To no surprise then, the Fund staff's prescriptions remained virtually unchanged.⁶⁴ In another IEO survey, the majority of IMF mission chiefs (who lead negotiations on terms of conditions of IMF loan programs with country officials) suggested that PRGFs did influence government policies on growth; but only 45% viewed PRGFs as instruments to reduce poverty and only 20% believed the PRGF to be a means of meeting the UN targeted goals poverty reduction goals called MDGs.⁶⁵

⁶¹ Camdessus, Michel, 1988, Addressing Concerns for the Poor and Social Justice in Debt Relief and Adjustment Programs, Conference on the Ethical Dimensions of International Debt, Seton Hall University, New Jersey, October 22, 1998. Available at: <http://www.imf.org/external/np/speeches/1998/102298.htm>. Emphasis in the citation added.

⁶² Independent Evaluation Office. 2004. *Evaluation of the IMF's Role in Poverty Reduction Strategy papers and the Poverty Reduction and Growth Facility*. Washington, DC: International Monetary Fund. P.7.

⁶³ Independent Evaluation Office. 2004. *Evaluation of the IMF's Role in Poverty Reduction Strategy papers and the Poverty Reduction and Growth Facility*. Washington, DC: International Monetary Fund. P.63.

⁶⁴ See Momani, Bessma. 2005. Limitations of Streamlining Fund Conditionality: IMF Organizational Culture *Journal of International Relations and Development* Vol 8, Issue 2. (June), pp.142-163.

⁶⁵ Independent Evaluation Office. 2007. *The IMF and Aid to Sub-Saharan Africa*. Washington, DC: International Monetary Fund. P.28,30. <http://www.ieo->

Instructed from their capitals, the Executive Boards of the Bank and the Fund proposed a debt sustainability framework for low-income countries (LICs). Pushed onto the staff by the two boards, the joint IMF-World Bank framework was developed to monitor low-income countries and their progress towards the Millennium Development Goals (MDGs) and to ensure that these countries did not incur new debt problems.⁶⁶ This later point was of particular concern with the influx of money available from commercial creditors to countries that received debt relief through the HIPC. Ghana, for example, after receiving HIPC debt relief, had incurred in commercial debt by raising \$750 million on the international capital market through a Eurobond issuance in September 2007.⁶⁷

To meet the interests of creditors and management, the IMF staff were put in the contentious position to talk and act like a development institution—some of the language was borrowed from the World Bank—while simultaneously holding to its motto of “It’s Mainly Fiscal”. As Graham Bird aptly remarked, “On its website, the IMF clearly states that it is ‘a monetary not a development institution’ ...It is difficult to imagine more important development issues than poverty and growth. This implies something of a split institutional personality and a potential—and one suspect’s actual—cause of internal ambiguity and tension”.⁶⁸ Herein was a challenge for the IMF staff: their technocratic impulse remained one that prescribed fiscal conservative policies and yet they had to meet the top-down external pressure to factor in social policies in the design of their programs. This clash led to amplified IMF rhetoric on combating poverty and inequality while in reality the IMF way of doing things had essentially remained unchanged.⁶⁹

In another IEO report, the problem of IMF staff internalization with the new orders to commit mission creep were further expressed:

“When the PRGF was introduced, it was meant to be more than a name change. It set out a new way of working, grounded in the PRS [poverty reduction strategy] process, with programs based on specific country-owned measures geared to poverty reduction and growth, and an ambitious vision of the IMF’s role on the analysis and mobilization of aid, working in close partnership with the Bank. But in the face of a weakening consensus in the Board and a staff professional culture strongly focused on macroeconomic stability—and, most important, changes in senior management and a resulting lack of focused

imf.org/eval/complete/pdf/03122007/report.pdf. The first of the eight MDG goals include eradicating poverty and hunger.

⁶⁶ <http://www.imf.org/External/np/pp/eng/2005/032805.pdf>

⁶⁷ Ghana Eurobond Wins Award, *Daily Guide*, 28 Dec 2007, available at:

<http://www.ghanacybergroup.com/articles/getart.asp?MC=ART&cat=5&id=377>

⁶⁸ Graham Bird. 2004. “Growth Poverty and the IMF” *Journal of International Development*. 16, p.621.

⁶⁹ Bessma Momani. "IMF Rhetoric on Reducing Poverty and Inequality," in *Global Governance, Poverty, and Inequality*, Rorden Wilkenson and Jennifer Clapp (Eds), Routledge, forthcoming.

institutional leadership and follow-through—the IMF [staff] gravitated back to business as usual”.⁷⁰

While the IMF’s external communication policy needed to fall in line with the IMF’s new message, the same would not hold true among the IMF staff. Consequently, this “...reinforced cynicism about, and distrust of Fund activities in SSA [Sub-Saharan Africa] and other low-income countries”.⁷¹ The IMF’s entry into the foray of monitoring internal good governance and talking about reducing poverty, were further examples of extension of the IMF mandate that were induced by the creditors and resisted by IMF staff.

D. Rebalancing Bank-Fund Relationship Through IMF Retrenchment

As new managing director Horst Köhler had taken office in May 2000, he assessed the growing complaint of IMF mission creep. This included criticism from prominent economists, US Congress, and emerging market economies for IMF failures in warning of and handling financial crises at the turn of the century and for the expanding purview of IMF staff conditionality.⁷² Debtor countries continued to cry foul for intrusive IMF conditions that went beyond the traditional areas of IMF expertise: monitoring and advising on exchange rate cooperation. G24 ministers, for example, noted that “...IMF conditionality has become excessive during the last decades in both magnitude and scope, particularly in areas that lie outside the Fund’s mandate and expertise.”⁷³ Köhler ordered a number of internal studies to address the concerns over mission creep and intrusive Fund advice.⁷⁴ The result was the new Conditionality Guidelines in 2002 that were meant to streamline conditionality and focus priorities on the IMF’s core areas of expertise.

Under the revised conditionality guidelines, the IMF has been focusing more in the core areas of the institution’s expertise. In PRGF-supported programs, conditions have shifted away from areas like enterprise reforms and social sectors toward monetary and fiscal policies. An internal conditionality review carried out a few years after the introduction of the new Guidelines uncovered that conditionality on growth and supply-side measures had been severely cut back,

⁷⁰ Independent Evaluation Office. 2007. *The IMF and Aid to Sub-Saharan Africa*. Washington, DC: International Monetary Fund. P.1. <http://www.ieo-imf.org/eval/complete/pdf/03122007/report.pdf>

⁷¹ Independent Evaluation Office. 2007. *The IMF and Aid to Sub-Saharan Africa*. Washington, DC: International Monetary Fund. P.33. <http://www.ieo-imf.org/eval/complete/pdf/03122007/report.pdf>

⁷² See, for instance, Goldstein, Morris, 2000, *IMF Structural Conditionality: How Much Is Too Much?*, Working Paper, Washington, DC: Institute for International Economics.

⁷³ April 2001 Communiqué: <http://www.g24.org/04-01eng.pdf>

⁷⁴ See Momani, Bessma. 2005. *Limitations of Streamlining Fund Conditionality: IMF Organizational Culture* *Journal of International Relations and Development* Vol 8, Issue 2. (June), pp.142-163.

while the World Bank had not increased conditionality in those areas where the Fund has withdrawn.⁷⁵

As the IMF started losing clients in 2004, the IMF was forced to internally reevaluate its *raison d'être*. At the same time, external criticism of the IMF, particularly from developing countries started to mount as they avoided borrowing. Under the new leadership of the then managing director Rodrigo de Rato, an internal process of trying to understand the root causes of the loss of relevance and legitimacy was initiated. The resulting Medium Term Strategy (MTS) document which was developed by the IMF's central department at the request of the Managing Director, endorsed the idea of refocusing the IMF staff on the institution's core mandates: exchange rates, macroeconomic policies, and global economic surveillance. In many ways, the MTS pushed the idea of narrowing the IMF's involvement in the low-income countries. This would give the World Bank more power and more scope into low-income countries while allowing the IMF to focus on its other clients and to gain its lost relevance. Civil society actors and IMF reform watchers came forward with similar proposals for further division of labour between the IMF and World Bank.⁷⁶

The impetus behind the MTS effort was an institutional desire of the IMF staff to refocus on its core areas of expertise. In fact, the IMF staff were supportive of lessening their mandate and scope of work on the low-income countries. In many ways, the Fund staff believed that the World Bank had more expertise, on the ground involvement, and better relations with the low-income countries. Moreover, the World Bank's mandate was clearly viewed as a more applicable one. With the aim of refocusing the IMF around its core mandates, the managing director and the president of the World Bank had set up an external and high level panel to review IMF-World Bank relations. In 2006, the ensuing Malan report confirmed the basic thrust of Bank-Fund relationship that "while the Bank and the Fund have separate mandates, they are inherently linked"⁷⁷ and reaffirmed that "[g]ood examples of collaboration involve the...FSAP, the ...HIPC Initiative, debt sustainability analysis and framework, and Reports on Standards and Codes." While not recommending a revision of the 1989 Concordat, the report emphasized the need for building a "stronger culture of collaboration." On Fund's financing activities in low-income countries, the report concluded that it "...is an area where [the Fund] has moved beyond its core responsibilities and moved into activities that increase its overlap with the work of the Bank. The criteria for Fund financing in low-income countries based on the concept of 'protracted balance of payments need' is so vague as to be difficult to distinguish from development finance in practice"

E. Latest Trends in Bank-Fund Relationship: A Déjà Vu?

However, with a new Managing Director, Dominique Strauss-Kahn, the MTS loses its grip and relevance. As he struggles to hold on to IMF clients, the prospects of further segmenting the low-

⁷⁵ Review of the 2002 Conditionality Guidelines, 2005, Washington, DC: International Monetary Fund.

⁷⁶ Radelet, Steve, 2006, IMF Facilities for Poststabilization Countries, in *Reforming the IMF for the 21st Century*, Ted Truman (Ed), Washington, DC: Institute for International Economics.

⁷⁷ Report of The External Review Committee on Bank-Fund Collaboration ("Malan Report"), 2007, Washington, DC: International Monetary Fund.

income countries to the exclusive purview of the World Bank started to lose favour within both management and the IMF staff.

With the unfolding of the international crisis, the IMF has gained significantly in prominence. As the G20 met in London in late 2008, the heads of state from the developed countries and the emerging market economies searched for an institution that could help manage the response to the financial crisis.

The Fund regained its role at the centre of financial crisis management; yet, the World Bank was hardly mentioned in the discussions. In this vein, the G20 requested that the IMF doubled its concessional lending to the low-income countries (through gold sales), but the World Bank's IDA allocations have been only front-loaded in the context of the three-year IDA-15 replenishments. Will this increased attention to the IMF result in increased IMF overlap into the work of the World Bank? If our analysis is correct, we may see another era of creditors pushing the IMF to extend its mission.

V. Conclusion

Drawing from multifaceted empirical evidence on the relationship between the IMF and the World Bank, we have sought to characterize the driving forces behind their interplay. Against the backdrop of a thin theoretical literature unable to explain the consequences of their interaction, we have conducted an interdisciplinary review of the theoretical work on which further research can build on to explain IO overlap.

When performing a critical analysis of the historical interactions between the Fund and the Bank from its early days through nowadays, three lessons emerge. In the earlier part of their institutional existence, where most of the efforts were aimed at implementing the vision put forward by the founding fathers at the Bretton Woods conference, the two staffs attempted to clarify the legal underpinnings of the jurisdictional scope of their respective mandates, along the lines of what predicted by the trade literature. The two staffs, while zealously carved the institutional boundaries of their activities, did not appear eager to overstep into each other's foot.

As important shareholders became more familiar with the actual and potential range of activities played by the Bank and the Fund, they increasingly leveraged on them to further their own interests, both in terms of protecting the resources they had invested in the institution themselves, especially at the Fund, and of increasing the leverage of the Bank and the Fund in persuading borrowing countries to abide to their prescriptions. In an attempt to counter pressures from powerful shareholders, Fund staff resisted outside forces to expand its operational sphere. While the dynamics can be read within the paradigm of the "principal-agent" theory, it operates in reverse as it is the shareholders who try to carve out a larger operational sphere for the Fund in an attempt to gain greater leverage on the stabilization and debt work-out plans being negotiated with borrowing states.

In contrast, the Fund staff still uses its skilful abilities to preserve some degree of autonomy from its principals by applying only in part and without too much enthusiasm their recipes. In this

regard, the evidence does point to the staff ability in maintaining some degree of independence from its political masters with the aim, however, to preserve the traditional institutional boundaries, not to expand them.