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Merry Sisterhood or Guarded Watchfulness? Cooperation Between the International Monetary Fund and the World Bank

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Abstract

Since their inception at the end of the Second World War, the sister organizations of the World Bank and the International Monetary Fund (IMF) have aimed to consistently speak with one voice vis-à-vis their member governments. However, anecdotal evidence suggests that they often do not speak in one voice. Fabricius draws on field research conducted in Ghana, Pakistan, Peru, and Vietnam to identify the conditions that determine whether or not the organizations are indeed on the same page and to address whether their traditional plea for consistency is always desirable. He recommends which measures seem crucial to ensure Bank-Fund consistency. At the same time he argues that under certain conditions, this consistency may lead to policy choices that are only second-best. He proposes that the Bank and the Fund pursue a case-specific approach in deciding whether they should take the same stance. A more flexible approach may increase not only the ownership of borrowing countries but also the sustainability of policy choices.

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INTRODUCTION

An important debate has emerged about how the World Bank and the International Monetary Fund (IMF) can salvage their legitimacy and enhance their effectiveness as managers of the global financial architecture. Much of the reform debate focuses on improving accountability and governance within each organization.[1] Underlying much of the discussion and corresponding proposals for reform (though not always explicitly) is the complicated nature of the relationship between the two Bretton Woods sisters; at times they resemble rivaling siblings, other times close confidants. While the Fund and the Bank were established at Bretton Woods to complement one another in promoting economic stability and growth, their mandates have shifted and expanded over the years in response to changing realities of the global economy. The result is greater overlap of Fund and Bank activities which, some have argued, has contributed to greater room for conflict.[2] As a result, increasing attention has been paid, particularly over the last decade, to ensure that the cooperation between the two organizations runs smoothly and consistently. However, results of such efforts have been mixed. As Edwin Truman has described, "despite frequent protestations to the contrary from the leadership of the two organizations, it is widely believed that turf battles are frequent and cooperation and coordination fall short of what a rational person would view as desirable" (Truman 2006a, 65).

So why all the problems? Why can't the sisters just get along? The answer is that we don't really know, at least not empirically. Despite a series of agreements (and periodic reviews of those agreements) aimed at strengthening Bank-Fund cooperation, little empirical evidence exists about how and under what circumstances the two organizations work together. In other words, the current discussion about how to improve Bank-Fund cooperation ignores the fact that the record is not clear about which factors inhibit or encourage better cooperation between the two. The underlying assumption is that the Bank and the Fund should speak with one voice to avoid inconsistencies in policy advice to borrowing countries. As stated in the 1989 Concordat agreement between the Bank and the Fund on collaboration, "[e]xisting procedures and practices of Bank-Fund collaboration are designed to ensure the quality of analysis and policy advice, as well as thorough explorations of any differences of view that may emerge between the staffs" (IMF 1989, paragraph 17). Yet, when inconsistencies do happen, existing academic literature and published reports on the matter fall short of explaining why. At the same time, it is not apparent that consistency (i.e., agreement between the Bank and Fund) in and of itself leads to the best policy recommendations, particularly in light of shifting priorities in the policy-lending environment.[3]

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1. The term "organization" is used here and throughout the paper when referring to the IMF and the World Bank to reflect the importance of aspects of organizational analysis and operational matters in the discussion. The term "organization" helps avoid confusion with the term "institution" as it is used in the context of "institution building" and relating to economic institutions in specific economies, in particular the economies of recipient countries.

2. For example, Ngaire Woods (2006, 176) argues that, "[t]he new debt relief initiative has brought the Fund and the Bank into greater areas of potential conflict with one another. As had occurred before, the respective roles of the IMF and World Bank had to be very carefully negotiated and elaborated."

3. Referring to consistency, one terminological note is in order: As explained in more detail in section 1, this work defines cooperation between the Bank and the Fund in terms of consistency of the stances they take vis-à-vis third parties, i.e.,

Key to the issue of Bank-Fund cooperation is the fact that pronouncements and concordats may be missing a key point. Cooperation and consistency between the Bank and Fund is an operational matter. Therefore, forces and trends that affect the way the two organizations operate will influence how they work together. Despite many similarities, the two organizations differ greatly on multiple aspects like organizational structures, styles, and momentum, all which influence their operations and can undermine efforts to ensure consistency.

Another key issue is that the perennial discussion of how to strengthen the division of labor between the Bank and the Fund does not seem to have evolved with the changing context of policy-based lending. Though the two organizations provide other services to member governments besides financial assistance (e.g., technical assistance and statistical analysis), lending has typically been the most prominent service generating the most intense interaction between states and the Bretton Woods organizations. Shifting roles and responsibilities between the two organizations and new priorities for successful lending mean that more extreme measures may be in order for determining how the Bank and the Fund divvy up their lending activities. As will be discussed in section IV, there is a case for significant scaling back of IMF operations to focus on core macroeconomic policy variables with the Bank assuming the bulk of policy-lending operations on matters more closely related to development.

Against this backdrop, this paper presents the findings of an empirical study whose principal aim is to explain the variation in Bank-Fund consistency. By observing a series of variables over a sample of policy-lending arrangements in four countries, the study sheds light on when the Bank and Fund have been found to adopt consistent stances vis-à-vis the borrowing government. The analysis clarifies the specific variables which explain that variation. The discussion in subsequent sections relates the evidence from the study to the mechanisms and arrangements employed over the years to ensure Bank-Fund consistency. Finally, in light of the increasing emphasis placed on ownership and country-specific knowledge as keys to successful policy-based lending operations, section IV questions whether Bank-Fund consistency is even as relevant as it once was. The discussion offers two concrete proposals for altering the operations of the organizations to generate more sound policy recommendations for borrowing countries.

Changing Roles and Changing Times

Before going into more detail about the country evidence, some general remarks on the context of Bank-Fund cooperation are in order. The current debate over IMF and World Bank reform was triggered by controversies that arose primarily during the 1990s surrounding currency crises and large scale bailouts by the Bretton Woods sisters. Suspicion of errors in the organizations' policy advice to these countries, particularly in relation to the so called Asian Crisis, raised serious questions as to both the importance and the effectiveness of subsidized lending provided by multilateral development banks. Emerging from these experiences was a sense that the Bretton Woods organizations had fallen short of performing the

governments of borrowing countries and other donors. Hence, if the Bank and the Fund are found to take consistent stances vis-à-vis third parties, they are said to cooperate. Correspondingly, if their stances are found to be inconsistent, they are considered as not cooperating.

functions international public bodies should carry out in the international economic arena. Furthermore, the rather public disagreements between the Fund and the Bank forced the organizations to rethink and recommit to the long-held vision of consistency.

Although agreements on cooperation between the two organizations date back to 1966, the 1989 Concordat was the most explicit in underscoring the importance of Bank-Fund collaboration in terms of "serving member governments with maximum effectiveness in meeting their development needs and in providing support for macroeconomic and structural change" and, particularly, to avoid having the two organizations give different policy advice (IMF 1989, paragraph 2). What differed in the case of the Concordat was the context. During the 1980s, the Fund's lending became more concessional, further related to sectoral and structural matters and increasingly focused on lower income countries, namely those typically served by the Bank. As activities of the two became more and more intertwined, the response of the organizations' management seemed to entail more forceful restatements of each organization's core responsibilities.[4]

At the same time that the mandates of the two organizations were evolving, bringing them into greater overlap and potential conflict, the very environment of policy lending began to shift. Traditionally, the Bank and the Fund adhered to certain recipes for reform and prescribed many conditions of their policy lending accordingly. However, as Center for Global Development working group cochairs Nancy Birdsall and Devesh Kapur (2005, 3) have noted, the notion of an agreed set of policy recommendations or "Washington Consensus," as coined by John Williamson, no longer exists. The current trend puts a greater emphasis on incorporating country-specific input and promoting country ownership in the formulation of policy proposals requiring greater engagement of borrowing governments. Such a shift also has important implications for the interaction and future cooperation between the Bank and the Fund.

To understand how the Bretton Woods sisters should adjust to their changing environment, it is important to have a deeper understanding of how and under what circumstances they cooperate. These factors are often hard to pinpoint, because the reports and reviews of Bank-Fund cooperation, though extensive, are largely based on internal or anecdotal evidence. Few are informed by scientific research. One attempt to follow a more empirical approach was carried out by the two organizations in the context of the 2004 IMF–World Bank progress report on Bank-Fund collaboration. A survey was sent out to staff and national authorities of borrowing governments with specific questions regarding the contexts and motivations for communication and cooperation between the two organizations, particularly in country settings. The report points out the significant limitations of the survey in terms of selection bias and coverage, but provides some insights into factors relating to Bank-Fund collaboration that support the findings of this study. Specifically, the analysis of survey responses named the following as factors contributing to effective communication between the two organizations: "consistency of views, clarity and complementarity of the division of labor,

4. As will be discussed in more detail in section III, delineating core responsibilities has been the main feature of agreements and mechanisms for cooperation, particularly in the 1989 Concordat.

coordination in shared areas of responsibility, complementary lending or intervention instruments, and relations between country teams" (IMF and World Bank 2004, 21). Ownership on behalf of national authorities was also found to enhance collaboration since "having their own, country-driven development strategy . . . increase[d] the demand for well-coordinated policy advice, program design, and conditionality by the two institutions" (IMF and World Bank, 2004, 21). At the same time, factors impeding collaboration included lack of country leadership and ownership and unequal presence in the countries, as well as "differences in institutional strategy and management styles, internal bureaucracy, and poor personal relations" (IMF and World Bank 2004, 21).

Focus of the Empirical Study

As will be developed in this paper, the results tested in the present study largely confirm these findings and go much further. The study serves to fill a gap in the empirical knowledge about factors associated with Bank-Fund cooperation by adopting a systemic and comprehensive approach to testing them. By collecting evidence across countries and time periods and considering a broad range of variables relating to both the nature of the two organizations and the environment in which they operate, the study aims to provide new insights into Bank-Fund cooperation. Furthermore, the study adopts an analytic approach that controls for variables and allows one to hone in on the specific conditions under which the Bank and the Fund speak with one voice vis-à-vis borrowing governments.[5]

The study examines the factors associated with Bank-Fund consistency on the basis of evidence collected in four countries: Ghana, Vietnam, Pakistan, and Peru. Through its results and analysis, the study not only hopes to shed light on the effectiveness of the existing mechanisms of cooperation, but also on which routes are most promising for ensuring Bank-Fund consistency and ways to adapt these mechanisms to the shifting priorities of today's lending environment. It is also worth noting that while this study focuses on the Bank and the Fund, its interest is confined to matters of Bank-Fund cooperation. By concentrating on policy-based lending (i.e., resources disbursed in exchange for specific policy measures to be taken by the borrowing government), this study neglects other activities offered to member countries, i.e., the Fund's surveillance and technical assistance, the Bank's project lending, and activities such as research, training programs, and statistical work. While these activities absorb a significant share of the two organizations' resources, this study considers them only to the extent that they are found relevant to Bank-Fund cooperation in policy-based lending. Furthermore, this study does not evaluate the policy advice the Bank and the Fund give to their borrowing countries.

The empirical research presented in sections I and II draws on various sources of information to design the variables used to measure factors of Bank-Fund consistency. Information has been obtained not

5. It is worth noting that although the rich literature on organizations identifies various factors which are expected to affect the relationship between different organizations, no study is known to the author which tries to test the explanatory power of individual factors in a systematic way. To the extent that international organizations have become powerful actors in international relations, understanding their interaction becomes as important as understanding the relations between nation states always has been.

only from scholarly publications and journalistic accounts, but also from extensive interviews conducted in the countries' capitals with decision makers, bureaucrats, representatives of bilateral donors, and local observers. Access to information was often subject to factors beyond the author's control, in particular the individuals' accessibility, time, and confidence.[6]

The subsequent sections aim to demonstrate that the failure to understand the factors influencing Bank-Fund cooperation and to appreciate the changing priorities for policy lending will continue to undermine the organizations' attempts to provide sound policy recommendations to their members. Perhaps it has been this failure which causes the struggle over the division of labor between the sister organizations to resurface again and again. For example, in a March 2006 announcement the heads of the two organizations established an External Review Committee to examine the progress of Bank-Fund collaboration pushing up the review scheduled for mid-2007. Specifically, the Committee was charged with examining the division of labor between the two organizations and give recommendations as to "what ways, if any, may the demarcation of responsibilities be better applied, altered, or made more precise, in order to achieve more efficient and effective delivery of services to the membership of both institutions" (IMF 2006, paragraph 9). The following pages attempt to contribute to this aim as well.

6. In total, about 800 interviews have been conducted in Washington, the capitals of the countries, and elsewhere. On average, each interview lasted between 70 and 90 minutes.

I. FRAMEWORK OF ANALYSIS: METHODOLOGY AND HYPOTHESES

The study described in this section attempts to answer the following question: When and under what conditions do the IMF and the World Bank adopt consistent stances vis-à-vis borrowing governments? To do so, a model was developed to examine Bank-Fund cooperation against a set of conditions hypothesized to explain whether or not the two organizations speak with one voice. Four countries—Ghana, Peru, Vietnam, and Pakistan—were included in the study based on two criteria. First, the Bank and the Fund had to have been simultaneously engaged in policy-based lending operations in the given country. Second, an indication that both the instances of Bank-Fund cooperation must be present and the conditions hypothesized to affect it would show some variation over time.

Units of Analysis: Episodes and Issues

The study looks at Bank-Fund cooperation over a 16-year time frame (1980–96), though each country's "exposure" to the two Bretton Woods organizations varies. To facilitate the analysis, the study divides a country's experience with the Bank and the Fund into several time-bound episodes reflecting the fact that the Bank and the Fund provided it with policy-based lending over several years. The different episodes have been defined in such a way that each one is characterized by a specific set of conditions, or explanatory variables. Hence, whereas the presence or absence of certain conditions could vary across episodes (and countries, of course), variables remain stable within each episode. Furthermore, the length of episodes varies considerably, ranging from some months to several years. For example, figure 1 presents all five of the episodes that have been defined for Ghana. As shown in table 1, a total of 16 episodes have been obtained for the four countries in this study. Of course, this sample cannot claim to be representative of all situations in which the Bank and the Fund are involved. It does, however, attempt to reflect a diverse range of settings that represents a considerable portion of the situations in which the Bank and the Fund operate.

Some of the conditions hypothesized to explain the cooperation between the Fund and the Bank are not specific to time-bound episodes, but to individual policy issues. These conditions include the government's technical capacity and the comparative advantage maintained by either of the two Bretton Woods organizations in addressing a specific issue. Therefore, a second set of observations is used to examine Bank-Fund cooperation on individual policy issues addressed by the two organizations during a given episode. For a specific policy issue to qualify as an additional observation, both organizations had to have taken a stance on it. This criterion generated a total of 26 issue-related observations, each falling into one of the 16 episodes.[7] Table 2 shows that the policy issues that have been considered fall under both microareas and macroareas. Taking the total of issues and episodes together, this study analyzes Bank-Fund cooperation on the basis of 42 observations.

7. As both episode-specific and issue-specific factors may explain whether or not the Bank and the Fund cooperate on a given issue, the number of explanatory variables is higher for issues than for episodes (12 explanatory variables versus 9, respectively).

One critical component of this study's methodology is the way it assesses Bank-Fund cooperation, which is measured in terms of consistency of the stances the two organizations take vis-à-vis borrowing governments. Specifically, the two organizations must take the same stance for all issues to be considered consistent for that episode. Hence, the operations of the Bank and the Fund are considered consistent only in episodes in which there is no evidence of inconsistency for any single issue.

Framework of Analysis

Although there is no coherent theory that would provide guidance to this study, there is a wealth of anecdotal evidence and various bodies of research that, based on a priori reasoning, are relevant in explaining whether or not the Bank and the Fund cooperate. In operationalizing the research setup, three theoretical concepts have been used to derive the explanatory variables hypothesized to affect Bank-Fund cooperation. These concepts are structural similarity between the two organizations, domain consensus, and negotiation dynamics. The following sections describe each concept and corresponding explanatory variables in detail to provide a solid theoretical basis for interpreting the findings of the country research presented in the next section. Figure 2 provides an overview of the model with all explanatory variables. Due to their highly qualitative nature, they are all measured as binary variables.

Structural Similarity

The first theoretical concept for explaining Bank-Fund cooperation is that similar organizational structures—both the formal structure of an organization as well as its operational processes—facilitate communication. This concept, developed for understanding communication within organizations, states that differences in the structures and procedures of two organizational entities may impede their communication. According to James March and Herbert Simon (1993, 142), the relevant structural features include differences in the degrees of centralization between the two organizations, disparities between egalitarian norms (often associated with American culture) and authoritarian hierarchies, and the logic of the organizational structure (e.g., functional vs. geographical divisions of responsibility). Features related to operational processes include the degree to which decisionmaking processes are formal vs. informal and differences in the dominant patterns of internal communication (e.g., written vs. verbal).

In relating structural similarities to the level of communication, this concept draws on two theoretical lines of reasoning. The first is transaction cost economics. This theory argues that the greater the difference between the structures of two organizational entities, the higher the costs individuals face when they share information and engage in processes of joint decisionmaking. From this perspective, factors driving up the "cost" of communicating between two organizations may include the additional time needed to identify one's counterpart in the other organization or to prepare the logistics necessary to hold personal meetings.

The concept's second line of reasoning draws upon the importance of trust and personal familiarity in enabling communication. If similar organizational structures in two organizations persist over time,

they can be expected to facilitate the flow of information in two ways. First, they provide the framework to allow for personal trust between the individuals in each organization to develop. Second, they may give rise to standardized patterns of communication between organizational entities. Once processes are standardized, they lead to the establishment of firm channels of communication between two organizations (Aldrich 1979, 277). In this context, March and Simon (1993, 119) point out that "the greater the amount of past experience with a decision situation, the less probable that intraindividual organizational conflict will arise."

This concept of structural similarity provides the basis for deriving three variables which are hypothesized to affect Bank-Fund cooperation. These variables are the similarity of operational styles, the similarity of resident mission arrangements and personal friction and are described below.

Similarity of Operational Styles. This variable is hypothesized to affect Bank-Fund cooperation as follows: Different operational styles prevent the Bank and the Fund from cooperating. Drawing on the reasoning presented above, this hypothesis reflects what some observers have pointed to as causes of Bank-Fund inconsistency. For example, Miller (1989, 118) argues that, given the different speeds of the two organizations, there is "bound to be a clash of cultures between those who work in the fire brigade handling short-term emergencies [i.e., Fund staff] and those who work where the long-term aspects dominate [i.e., Bank staff]."[8]

The term "operational style" denotes the operational practices which are assumed to have a bearing on Bank-Fund communication. In measuring this variable, three aspects have been taken into consideration. The first is similarity in each organization's consistency across all organizational units (in particular, across resident missions and headquarters). The second aspect is similarity in the degree of continuity in each organization's staffing, and the third is similarity in the two organizations' operational speed.[9]

Similarity of Resident Mission Arrangements. The reasoning above leads to another hypothesis about Bank-Fund cooperation, namely that the two organizations do not cooperate if only one of them has a resident mission in the recipient country. If only one of the two Bretton Woods organizations has a resident mission in a given country, its operations are assumed to differ significantly from the other organization's operations. In particular, operational differences refer to the patterns of interaction with government authorities as well as to the role Washington headquarters' staff play in orchestrating the organization's operations in borrowing countries.

This variable also captures the difference in the degree of secrecy that seems to characterize the operations of the two organizations. Specifically, the Fund has prided itself on being more confidential in

8. In a similar vein, Feinberg (1986, 16) attributes occasional difficulties in Bank-Fund cooperation to what he refers to as "ideological, procedural, and bureaucratic obstacles."

9. Further details about how this and all subsequent variables are measured is presented in appendix A.

its operations than the Bank.[10] According to findings from interviews and anecdotal evidence from the country research, different levels of secrecy imply that in situations where the Bank (but not the Fund) had a resident mission in the borrowing country's capital, Fund staff often tended to be more reluctant to share information with Bank staff for fear that they might violate the confidentiality of the Fund's operations. Alternatively, if both the Bank and the Fund had resident missions in the borrowing country, Fund staff often found it easier to follow the Bank's mission operations more closely and would be more willing to share information.

Personal Friction Between Senior Staffs. The third variable is based on the hypothesis that the two organizations fail to cooperate if personal friction exists between their senior staff members. Needless to emphasize, communication depends not only on organizational structures but also on personal attitudes. Jacques Polak (1994, c-149) described this as follows:

> The extent to which the two staffs [of the Bank and the Fund] worked together on macroeconomic policy advice in individual countries depended to a large extent on the attitudes of regional managers.

Therefore, apart from attitudes towards Bank-Fund cooperation, there is, of course, personal sympathy and understanding between the individuals involved (or the lack thereof) that affects whether or not the Bank and the Fund cooperate.[11]

Domain Consensus

Domain consensus, the second concept used to select the explanatory variables in the study, relates to whether each organization agrees with the boundaries of the other organization's activities in a given situation. As has been found for the Bank's and the Fund's operations (e.g., in the course of the Asian Crisis) the staff of one organization may disapprove of the scope of the other's operations. Such episodes are said to be characterized by domain dissent. Conversely, episodes in which an organization approves of the scope of the other's activities are characterized by domain consensus. Both domain dissent and domain consensus are hypothesized to affect Bank-Fund cooperation via the effect they are assumed to have on communication.

A total of five variables have been derived from this concept—domain consensus, formal agreement of cooperation, similarity in each organization's exposure to the recipient country, sense of economic crisis

10. Traditionally, the Fund has been criticized as a secretive organization. Despite the Fund's efforts in recent years to be more open (e.g., submitting its operations to external expert reviews and increasing the number of published documents), Miles Kahler (2006, 267) notes that secrecy in IMF operations persists: "Although the old culture of secrecy at the IMF has been substantially dismantled, the IMF, responding to the wishes of national governments, has moved more slowly to reveal information that could influence governments through public and political channels."

11. In the early stage of this study, many staff members were asked the open question of what they felt determined the level of communication between the IMF and the World Bank. Many interviewees answered along the lines: "If you ask me it is all a matter of the chemistry between the individuals involved."

and ambiguity of comparative advantage. The following section explains each of the five variables in detail:

Domain Consensus. The hypothesis for the variable measuring domain consensus is that the Bank and the Fund do not cooperate when there is domain dissent between them. According to the theory of organizations, situations of domain dissent and domain consensus are characterized by specific styles of interaction. If two organizational entities consent to the domains of their respective activities, their interaction can be characterized as organizational exchange.[12] In this case, resources and services flow between organizations in accordance with the "normal" interdependence between their activities (Aldrich 1979, 266).

Compared with situations of domain consensus, situations of domain dissent are characterized by a different style of interaction. Following Sol Levine and Paul White (1961, 599), such situations are characterized by confusion as to "who gets what for what purpose." When the functions of the interacting organizations are diffuse, achieving domain consensus becomes a matter of constant readjustment and compromise, a process that corresponds to negotiation and bargaining. In situations of domain dissent, an organization can be expected to pursue bargaining strategies that aim to define and defend its domain or help it increase its independence (Scott 1992, 193–225). However, whether such disagreement alters the style of communication between the two organizations depends on the communication patterns already in place. If these patterns are strong, staff members can expect them to be a vehicle by which to settle their disagreement and foster domain consensus. Therefore, only where there are weak communication channels does disagreement lead to domain dissent.[13]

Formal Agreement of Cooperation on the Operational Level. This variable reflects the hypothesis that formal agreements of cooperation fall short of ensuring Bank-Fund cooperation. This rationale draws from an analysis of the effectiveness of the Policy Framework Paper (PFP), the only formal agreement on cooperation that was in place during the course of this study. The PFP was a collaborative mechanism designed to improve the Fund's lending to low-income countries requiring the Fund, the Bank, and the borrowing government to jointly identify the country's three-year policy goals.[14] Yet it did not live up to its expectations in terms of ensuring Bank-Fund consistency for two key reasons. First, the PFP

12. In their study of patterns of exchange between different organizations in the health sector, Sol Levine and Paul White (1961, 583) find domain consensus a prerequisite for organizational exchange. The authors define organizational exchange as "any voluntary activity between two organizations which has consequences, actual or anticipated, for the realization of their respective goals or objectives."

13. Using Albert Hirschman's framework of exit and voice (1970), disagreement between two organizations can trigger two responses: expressing disagreement (voice) and withholding information (exit). As long as communication channels between the two organizations are strong, exercising voice is rational as staff members can expect that doing so will trigger the appropriate response on part of the other organization. However, once the communication channels are too weak to justify this expectation, withholding information may become more effective than claiming leadership in the respective issue area and domain dissent will prevail.

14. The PFP mechanism was replaced by new mechanisms of collaboration like the Poverty Reduction Strategy Paper (PRSP), introduced in more detail in section III.

often remained vague and superficial due to relative low-priority status among Fund operations and nonessential standing within Bank operations. In the case of the Fund, the trilateral PFP document was just one out of three documents required by Fund staff to prepare during the process of negotiating a lending agreement and not the most important one.[15] In the case of the Bank, the PFP was not directly linked to its own lending programs and not required at all. This asymmetry led to a PFP that remained vague on important issues like specific policy targets and their ties to the lending operations of the two organizations, leaving Bank and Fund staffs with a high degree of discretion in deciding how to coordinate their operations in the field—at times at the expense of Bank-Fund consistency.

A second problem with the PFP was that it failed to effectively engage borrowing governments in negotiating policy targets. The result was often overambitious goals that required subsequent revisions. As guidelines about participation of the three parties in elaborating the PFP focused only on the drafting stage, the Bank could, for instance, be left out of the eventual revision stage contributing to inconsistent policy stances between the two organizations (Polak 1997, 503). Overall, though the PFP process facilitated the Fund's lending operations to low-income countries,[16] it demonstrates how formal agreements alone are insufficient to ensuring that the Bank and Fund speak with one voice.[17]

Similarity in Each Organization's Exposure to the Recipient Country. The hypothesis behind this variable is that strong differences in the Bank's and the Fund's exposure to the respective borrowing country are likely to lead to Bank-Fund inconsistency. Such inconsistency happens via the effect unequal exposure has on domain dissent. This assumption is based on the following line of reasoning: If the Bank's and the Fund's exposure to a given borrowing country strongly differs, then the organization that is heavily exposed to the borrowing country is likely to address areas the other organizations consider part of its own jurisdiction. To the extent that this leads to disagreement, domain dissent is likely to arise.[18]

Sense of Economic Crisis. This variable is hypothesized to affect Bank-Fund consistency in the following way: If the economy of the borrowing country is characterized by a sense of crisis, the IMF and the World Bank cooperate. By definition, situations of economic crisis are characterized by macroeconomic imbalances that are considered unsustainable. Situations of economic crisis typically foster a common

15. The Fund also had to prepare (bilaterally) a staff appraisal of the lending agreement and formulate a Letter of Intent. The emphasis of secrecy and confidentiality in Fund operations meant that, at least in some cases, most of the important policy arrangement details were left for the Letter of Intent and not the PFP.

16. As James Boughton points out (2001, 1001), though "most PFPs in the 1980s turned out to be too broadly drafted to have much operational significance, the process did serve to enable the Fund to get the SAF and its 'enhanced' sequel (the ESAF) running without provoking internecine warfare or dragging the Fund staff too deeply into unfamiliar waters."

17. As will be discussed in section III, lessons learned from the PFP experience led to changes in the design of subsequent cooperation mechanisms which may have contributed to more effective outcomes in terms of Bank-Fund cooperation.

18. Consider the example of the World Bank having a large portfolio of projects and sectoral loans in the absence of any Fund program. In this case, the World Bank may engage not only in sectoral work, but also in macroeconomic work. In its policy dialogue with the government, the Bank is then likely to address issues that the Fund considers to fall into its responsibility. In order to reestablish its leadership in these issue areas, the Fund may then refrain from sharing relevant information with the Bank.

sense of urgency among those involved to pursue corrective measures. Among the Bretton Woods organizations, the Fund has traditionally been the one charged with responding to crises. In accordance with its traditional role as lender of last resort, its mandate for macroeconomic issues, and the relatively shorter time horizon of its operations, the Fund is expected to take the lead in providing policy advice in such situations of crisis. Correspondingly, the World Bank is expected to defer to the Fund on macroeconomic issues. Compared with situations of crisis, situations of relative stability are characterized by more ambiguous policy priorities. [19]

Ambiguity of Comparative Advantage. This variable captures the rationale that if the Bank's and the Fund's comparative advantage in dealing with a specific issue is ambiguous, the two organizations are unlikely to cooperate. This hypothesis assumes that if neither one of the two organizations has a comparative advantage in addressing a specific issue, each one of the two organizations is likely to conduct its own analyses and develop its own conditionality. Conversely, whenever one organization is perceived to have a clear comparative advantage in the issue area in question, the other organization is likely to follow its lead. Therefore, domain dissent is more likely when each organization's comparative advantage is ambiguous.

Dynamics of Negotiations

The third theoretical concept from which variables have been derived relates to the dynamics of negotiations between the government, the Fund, and the Bank. This concept reveals that the level of Bank-Fund communication is sensitive to the borrowing government's attempts to play the two organizations off each other. Describing the dynamics of negotiations, van der Geest (1994, 188) points out that:

> [n]egotiations with lending institutions, especially the World Bank, by a borrowing government leave considerable room for bargaining: a less 'tight' set of policy reforms may be traded against an increased likelihood of difficult, or even failing, negotiations over the proposed loan.

In other words, the stronger the party, the more it can afford to employ maneuvers that might delay negotiations. In this context, Nelson (1990, 18) alludes to some "intricate cross-currents of support and rivalry. . .between the IMF and the World Bank."

The concept of negotiation dynamics draws on the scenario that Georg Simmel characterizes as *tertius gaudens,* a phrase describing one party that profits from the disunion of others. This scenario defines success in negotiations in terms of the social structure of the negotiation situation (Burt 1992, 30). In situations in which the Bank and the Fund exhibit different views and poor communication, the government is more likely to have an informational advantage. The government may know more about

19. The validity of the reasoning above hinges on the nature of the crisis. What needs to be emphasized is the concept of crisis presented above relates to crises whose nature is macroeconomic. Crisis situations of this kind are to be distinguished from crisis situations whose nature is structural.

each organization's stance than they know about themselves. It can broaden its room for maneuvering by deciding which information to present to each organization and whether or not it is advantageous to bring the two organizations together. Consequently, the government may build value from any disagreement the Bank and the Fund may have (Burt 1992, 34).

For the government to be able to build value from such disagreements, two conditions have to be met. First, each organization's role in advising the government with respect to a given issue must be unclear to create an opportunity for the *tertius* to broker the negotiation process by playing the two demands against each other (Burt 1992, 33). The second condition is poor communication between the Fund and the Bank. The range of the government's opportunities is inversely related to the extent to which the two organizations communicate. If the two organizations do not communicate at all, the government may present one organization with ambiguous, distorted, or even inaccurate information about the other's position.[20] If, however, the two other parties become a unit (e.g., communicating and sharing a common stance) the group changes from a combination of three elements into that of just two, and the *tertius* slips from its favorable position (Simmel 1950, 160). As a result, the government has an inherent interest in pursuing a strategy of *divide et impera* by fostering competition between the two parties in order to keep them acting as different players (Burt 1992, 31).

Based on this line of reasoning, four variables have been hypothesized to affect Bank-Fund cooperation. These are the government's negotiating position, its technical capacity, similarity in each organization's relationship with the borrowing country, and the level of disagreement between the borrowing government and the two Bretton Woods organizations.

Negotiating Position. This variable reflects the following hypothesis: The IMF and the World Bank are more likely to cooperate in situations where the government's negotiating position is strong rather than weak. This hypothesis reflects the following reasoning: Whenever the Bank and the Fund deal with a strong government they face the risk that the government is trying to drive a wedge between them. This risk provides the two organizations with an incentive to strengthen their communication.[21]

For borrowing governments to be considered as having a strong negotiating position, two conditions need to be met. First, the government's authorities need to speak with one voice vis-à-vis the Bretton Woods organizations, resulting from a high level of internal coordination among its agencies. Second, the government must have enough financial breathing space that it does not urgently need disbursements on the part of the Bank and the Fund. Otherwise, the government would be reluctant to pursue any negotiating strategy that might lead to delay.

Technical Capacity. The Bank and the Fund are also thought to be more likely to cooperate in situations in which the government's technical capacity is weak than in situations in which the government's

20. This can be seen in the episode of crossroads in Vietnam and the episode of liberalization in Ghana as described in boxes 1 and 2, respectively (see section II for the boxes).

21. This hypothesis runs counter to what Kahler (1992, 13) suggests: He finds donor consistency inversely related to the negotiating position of the borrowing country.

technical capacity is strong. This hypothesis assumes that knowledge and technical expertise influence the outcome of negotiations (Sebenius 1992, 325). In the case of policy issues, a high level of technical capacity enables the government to probe into the underpinnings and the consistency of the Bank's and the Fund's policy recommendations. In anticipation of this possibility, the two Bretton Woods organizations are then hypothesized to increase their communication in order to ensure the consistency of their stances. The effect is similar to what happens when the Bank and the Fund face a government in a strong negotiating position during a specific episode as described above.

Similarity of Each Organization's Relationship with the Borrowing Government. This variable reflects the rationale that similarity in the Bank's and the Fund's relationship with the borrowing government is conducive to Bank-Fund cooperation. This hypothesis assumes that communication between the two Bretton Woods organizations suffers in situations where the government's relationship with one organization is considerably more adversarial than its relationship with the other. If the government's relationship with one of the two Bretton Woods organizations is highly adversarial, then staff members of that organization, concerned about further compromising their negotiation position, may become reluctant to share information not only with the borrowing government, but also with the other organization. In light of the fact that the Bank's relationship with borrowing governments tends to be perceived as friendlier than the Fund's relationship, this variable becomes particularly relevant.[22]

Extent of Disagreement. This variable is based on the hypothesis that the stronger the disagreement between the borrowing government and the two Bretton Woods organizations, the more likely the Bank and the Fund are to cooperate. This hypothesis assumes that whenever there is strong disagreement between the borrowing government and the Bretton Woods organizations, policy discussions are likely to remain on a rather general level—too general to address the details on which the Bank and the Fund might disagree. This reasoning is in line with what Vocke (1991, 190) suggests (i.e., that Bank-Fund cooperation is more likely the greater the resistance the two organizations face on the part of the borrowing government). By contrast, situations in which the borrowing government shares the Bank's and the Fund's general view, program negotiations are more likely to address those details on which the Bank and the Fund might disagree.

Conclusion

To summarize, a total of 12 explanatory variables have been identified based on the three concepts described above. Table 3 summarizes these variables and shows that most relate to time-bound episodes.

22. Whereas the World Bank has historically been regarded as "friends of developing countries," negotiations with the Fund are often less amicable (Krueger 1997, 15). This sentiment is captured in the external review of the Fund's lending under the Enhanced Structural Adjustment Facility (ESAF): "We found the Fund's image to be rather negative at the general popular level, and even in relatively more informed circles. . . . In contrast, the Bank's image in most countries was much more favorable although the Bank was often more intrusive in the very sectors about which people complained most" (IMF 1998, 35).

Only three variables that have been identified relate to individual policy issues. The best way to think about these variables is to understand each as a condition that has been hypothesized to affect whether or not the Bank and the Fund cooperate and measured as binary variables.[23] As a result of this procedure, the conditions have been defined for every episode and every individual policy issue.[24] These data have been used as the basis for identifying the necessary and sufficient conditions of Bank-Fund cooperation. As mentioned in the introduction and described in detail in appendix B, the results of the study were analyzed using a technique called Boolean algebra for its suitability in terms of specificity and sensitivity to combinations of different conditions. The results of this procedure are discussed in the following section.

23. The variables have been coded on the basis of specific indicators, which have been defined for each variable. For definitions of these indicators, see appendix A.

24. For an example of how the value for each of the variables has been derived from the analysis of country evidence, see the interpretation of the Pakistani episode of bureaucratic rule in appendix C. For the complete analysis and interpretation of the country analysis, see Fabricius (1999).

Table 1 Overview of episodes

Country	Episode	Years
Ghana	Turnaround	1980–82
	Rehabilitation	1982–85
	Ambiguity	1985–87
	Liberalization	1987–90
	Democracy	1990–93
Vietnam	Opening	1990–91
	Reform promotion	1991–93
	Crossroads	1993–95
Pakistan	Bureaucratic rule	1980–82
	Turbulent transition	1987–88
	Democratic take-off	1988–90
	Deadlock	1990–93
	New momentum	1993–95
	Crisis management	1995–96
Peru	Firefighting	1990–91
	Reintegration	1991–93

Source: Fabricius (1999).

Table 2 Overview of issues

Issue	Episode	Country
Aid	Democracy	Ghana
	Crossroads	Vietnam
Cocoa	Turnaround	Ghana
	Rehabilitation	Ghana
	Liberalization	Ghana
Financial sector	Crossroads	Vietnam
	Deadlock	Pakistan
Fiscal	Ambiguity	Ghana
	Liberalization	Ghana
	Democracy	Ghana
	Reintegration	Peru
	Turbulent transition	Pakistan
Macro	Ambiguity	Ghana
	Liberalization	Ghana
	Opening	Vietnam
	Reform promotion	Vietnam
	Firefighting	Peru
Privatization	Liberalization	Ghana
	Reform promotion	Vietnam
	Crossroads	Vietnam
	Reintegration	Peru
	Deadlock	Pakistan
Trade	Ambiguity	Ghana
	Reform promotion	Vietnam
	New momentum	Pakistan
	Crisis management	Pakistan

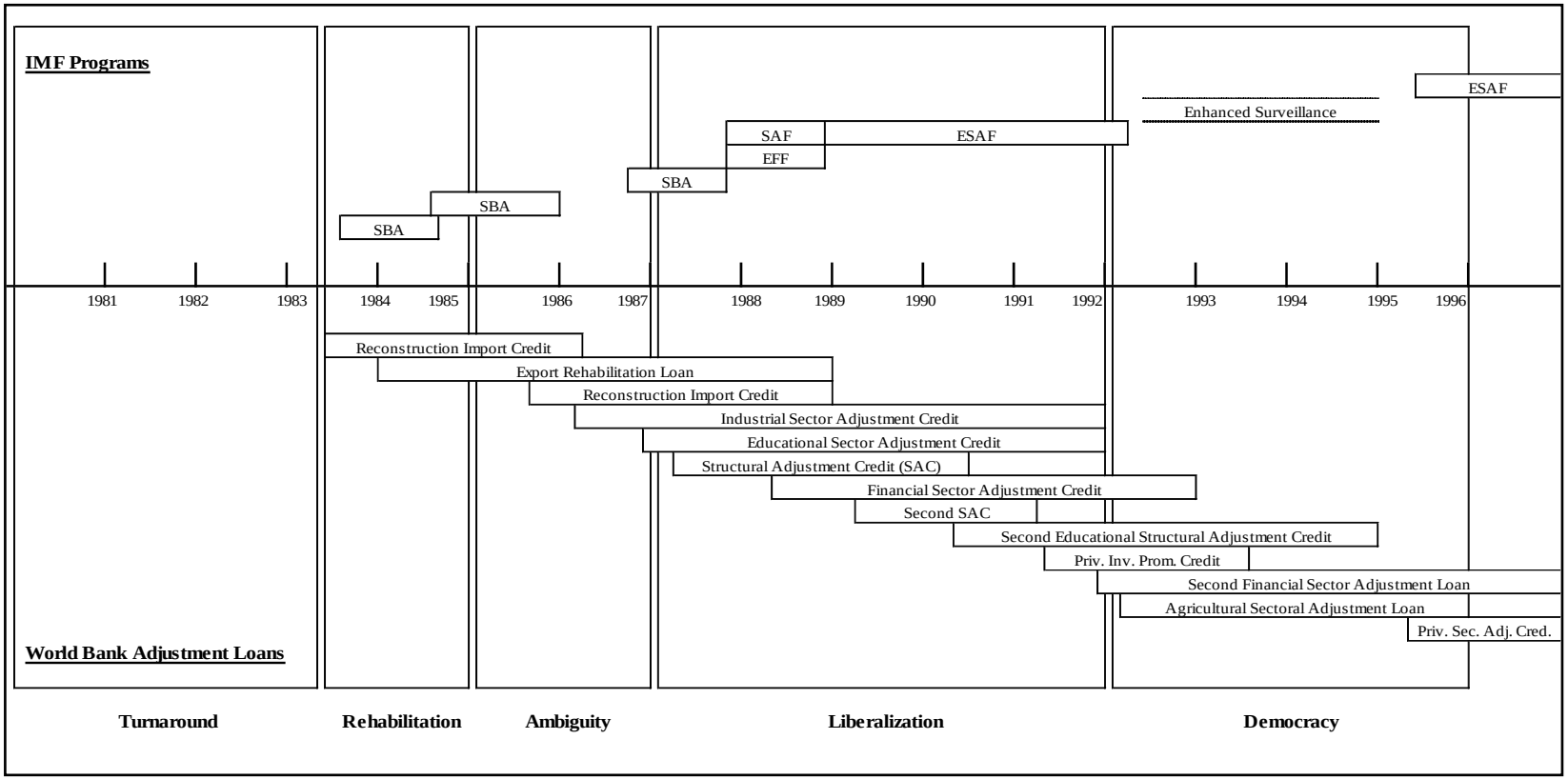
Source: Fabricius (1999).

Table 3 Overview of explanatory variables

Concept	Variable	Unit of analysis	
		Episodes	Issues
Structural similarity	Similarity of operational styles	x	
	Similarity of resident mission arrangements	x	
	Personal friction between senior staffs	x	
Domain consensus	Domain consensus	x	
	Agreement on cooperation at the operational level	x	
	Similarity in each organization's exposure to borrowing country	x	
	Sense of economic crisis	x	
	Ambiguity of comparative advantage		x
Dynamics of negotiation	Negotiating position of government	x	
	Technical capacity of government		x
	Similarity of each organization's relationship with borrowing country	x	
	Extent of disagreement between government and Fund/Bank		x

Source: Fabricius (1999).

Figure 1 Episodes of Ghana



EFF=Extended Fund Facility; ESAF=Enhanced Structural Adjustment Facility; SAF=Structural Adjustment Facility; SBA=Stand-by Arrangements

Source: Fabricius (1999, 114).

Figure 2 Model to analyze Bank-Fund cooperation

C = O M P D A I S U N T R G

Structural similarity	Domain consensus	Negotiation dynamics
"Similar organizational structures facilitate communication."	"Communication patterns between two organizations depend on the degree to which they consent to the domain of their respective activities."	"Communication between two organizations is sensitive to attempts by third parties to play the two agents off against each other."

A = Agreement of cooperation on operational level
C = Cooperation between the Bank and the Fund
D = Domain consensus
G = Extent of disagreement between government and Bank/Fund
I = Similarity in each organization's exposure to borrowing country
M = Similarity of resident mission arrangements
N = Negotiating position of government
O = Similarity of operational styles
P = Personal friction between senior staffs
R = Similarity of each organization's relationship with recipient country
S = Sense of economic crisis
T = Technical capacity of government
U = Ambiguity of comparative advantage

II. CONDITIONS OF BANK-FUND COOPERATION AND POLICY IMPLICATIONS

Country Evidence

Employing the variables described in the preceding section, the study examined the conditions under which the Fund and the Bank spoke with the same voice vis-à-vis four borrowing country governments over a span of 16 years. Table 4 summarizes the country research by presenting the episode-specific variables for the 16 episodes identified for the study. The column with the heading "C" shows whether the Bank and the Fund were found to be cooperating. The rest of the columns present the specific conditions that were either present or absent in each episode. All the conditions hypothesized to explain Bank-Fund cooperation are shown to vary across observations and most across episodes, though some variables (i.e., personal friction [P] and sense of economic crisis [S]) showed little variation. Concerning Bank-Fund cooperation, column C shows that the Bank and the Fund were found to cooperate in 10 (or 63 percent) of these episodes with at least one episode of cooperation and noncooperation occurring per country.

What table 4 shows for the various episodes, table 5 shows for individual policy issues, offering evidence of the differences in Bank-Fund cooperation grouped across seven main policy areas.[25] The table shows that regarding fiscal policy, the Bank and the Fund cooperated in only one out of five cases. For both privatization and macroeconomic policy, the Bank and the Fund cooperated in three out of five cases. Instances of inconsistency have also been encountered in financial sector reform, trade policy, and cocoa policy. Aid coordination is the only issue area in which no instance of noncooperation has been found. Overall, the Bank and the Fund were found to have cooperated on 15 of the 26 policy issues observed. Hence, the likelihood of cooperation (in this limited sample) for individual policy issues is roughly similar to the likelihood of cooperation found for various episodes (58 percent). Taken together, the data presented in these two tables provide the basis for identifying the conditions under which the Bank and the Fund cooperate and fail to cooperate, respectively.

Results of the Analysis

The formal analysis yields a picture of remarkable consistency.[26] Whether or not the Bank and the Fund cooperate has been found to depend on two conditions: similarity in the Bank's and the Fund's operational styles (O) and domain consensus (D). These two conditions are highly correlated. That is, whenever the Bank and the Fund operate in similar styles, domain consensus often exists. Furthermore, whenever the Bank and the Fund exhibited similar operational styles (and there was domain consensus),

25. Readers will notice that table 5 contains the same variables as table 4 since each issue falls into one of the episodes presented in the latter. The tables differ, however, in that table 5 includes the additional issue-specific variables, i.e., ambiguity of the two organizations' comparative advantage (U), the government's technical capacity (T), and the extent of disagreement between the government and the Bank/Fund (G).

26. For details of the formal analysis, see Fabricius (1999, 495–529).

they presented consistent policy stances. Conversely, the Bank and the Fund took different stances whenever their operational styles differed and domain dissent was present.[27] Once these conditions are taken into consideration, none of the other variables show any significant correlation with Bank-Fund cooperation. Given the prominent importance of domain consensus and similarity in operational styles, the following section will examine these two conditions in more detail.

Domain Dissent

As mentioned above, domain consensus denotes whether the staff members of one organization approve of the scope of the other organization's activities. Disapproval leads to domain dissent and corresponds to what is usually referred to as "turf battle." As shown in tables 4 and 5, domain dissent has been found in five episodes and five issues. The contextual evidence collected for each of the four countries allows us to identify four drivers of domain dissent.

The first driver of domain dissent relates to the individuals involved. The reason, as supported by the evidence of this study, is that in many cases, information exchange has been subject to the decisions of individuals. Furthermore, the study found only a few instances in which the exchange of information between the Bank and the Fund could be characterized as institutionalized.[28] Instead, Bank-Fund interaction depends highly on the preferences and personal styles of individuals. Personal preferences seemed to guide whether or not individual staff members decided to go out of their way in order to seek consultations with their counterparts. For some individuals, reaching an agreement with their counterparts across 19th Street ranked fairly high on their agenda. For others, it did not—and therefore, agreements did not happen. Interviews and country research carried out for the study found no evidence that failure to cooperate with the Fund/Bank) would hurt a Bank/Fund staff member's standing in his/her organization. This observation suggests that the capability to establish working relationships across the two organizations has not sufficiently entered the set of performance criteria which influence personnel decision making.

Highlighting the important roles individuals can play in determining domain dissent, evidence from the study shows situations in which turnover in a key operational position led to a shift from domain consensus to domain dissent (and vice versa). For example, table 4 shows that in the case of Vietnam the transition from the episode of reform promotion to the episode of crossroads was accompanied by a change from domain consensus to domain dissent. As documented in box 1, this shift

27. As shown in table 4, the Peruvian episode of reintegration is the only episode in which the Bank and the Fund did not cooperate in combination with domain consensus. In all other observations, domain consensus was accompanied by cooperation between the Bank and the Fund. This finding may reflect the specific nature of this episode (Fabricius 1999, 468–78). Alternatively, however, it may result from differences in the quality of information that was taken into consideration in coding the individual variables. Compared with other episodes, the Peruvian episode of reintegration was characterized by more limited access to key staff members of the Bank and the Fund as well as by shorter interviews. This may have led to measurement error.

28. This corresponds to the findings of the external evaluation of the Fund's ESAF programs during the same time period of the study: "Our sense is that in spite of the progress that has been made in the past few years in forging harmony in Fund/Bank relations, too much still depends on personalities" (IMF 1998, 58).

Box 1 Individuals make a difference: The Vietnamese episode of crossroads

The episode of reform promotion (1994–96) in Vietnam which preceded the episode of crossroads (1996–97) was characterized by efforts on the part of both the Bank and the Fund to further advance the economic reform process which began in the 1980s. The Bank's and the Fund's operations were highly interdependent not only with respect to monetary policy but also with respect to fiscal policy. Staff members of the two organizations engaged in various modes of communication, including meetings between the staff members of the two organizations and joint missions. During this episode, the two organizations exhibited domain consensus and consistent policy stances regarding all policy issues in which they were simultaneously engaged (see table 4).

Both consistency and domain consensus disappeared in the subsequent episode of crossroads. The shift was due to break downs in communication resulting from a changeover in Bank staff. Staff members who had held key positions for several years left their division. In particular, the Bank's new country director took an active interest in managing the Bank's operations in Vietnam which contrasted to the laissez-faire attitude of his predecessor. In the opinion of one interviewee, document sharing during the episode of crossroads became "too much subject to personality, not institutionalized enough." Although no case of personal friction was detected, the relationships between key staff members in both organizations' country teams came to be less cordial than the relationships between their predecessors. One staff member pointed out that after the change in each organization's team, "some chemistry ha[d] to be built up again."

The staff changes also contributed to inconsistencies in the policy stances of the two organizations. The Bank and Fund staffs stopped going out of their way to ensure that they were speaking with one voice vis-à-vis the Vietnamese government. One senior staff member of the Bank expressed this as follows:

> It is quite normal to have professional disagreements once different economists work on something. . . . Sometimes it is important to disagree—as long as that does not lead to friction. And sometimes, it may be beneficial to the government to get different opinions; then they can better see what the issues are.

In the light of this attitude the two organizations started to operate in parallel rather than in concert. According to one interviewee, there was some "confusion over the Bank's and the Fund's mandates." The crossroads episode demonstrates how a change in personnel can be at the heart of shifts from domain consent to domain dissent and inconsistencies.

Such a break down in communication appears to have opened the two Bretton Woods organizations up to more than just disagreement. In the episode of crossroads, the government seemed to make efforts to broaden its room for maneuver by exploiting what seemed to be a declining level of communication and coordination between the Bank and the Fund. More specifically, the government explicitly requested the Bank's opinion on interest rate policy despite the fact that the Fund had traditionally taken the lead in this area. Rather than deferring to the Fund, the Bank's country team developed its own recommendation on interest rate policy which differed from the Fund's. Whereas in previous episodes, the two organizations reconciled these differences of opinion among themselves, they surfaced once the communication between the Bank and the Fund deteriorated.

can be attributed primarily to the attitude of the incoming senior staff members. Clearly, if the process of consultation between the Bank and the Fund on Vietnam had been institutionalized, turnover in a key position would not have triggered such a shift.

The second driver of domain dissent is turf sensitivity. Although individuals have been shown, as in the case of Vietnam, to foster domain dissent, individuals also face limits in the extent to which they can

set the tone of Bank-Fund cooperation. Such limitations can result from guidance by senior managers, presence of career incentives, and what is often vaguely referred to as "organizational culture." In several episodes during the study, strong turf sensitivity and resulting protectionist stance was found to lead to domain dissent. It is worth emphasizing that, when found, this turf sensitivity occurred exclusively among individuals in the Fund and never on the part of the Bank. The Fund's sensitivity seemed to be highest with respect to matters of macroeconomic and exchange rate policy. This impression is in line with the findings of an external evaluation of Fund programs in low-income countries: Commenting on some complaints among Bank staff, the report states that "Fund staff are often cast in an inflexible mold by their briefing papers and mandates, and are much to quick to plead jurisdiction and turf when differences arise" (IMF 1998, 58).

The third driver of domain dissent is operational redundancy between the Fund and the Bank. As shown in table 5, domain dissent was only encountered in three policy areas, namely macroeconomic policy, fiscal policy, and financial sector reform. For other policy areas (i.e., privatization, agricultural policy, trade policy, and aid coordination) no single instance of domain dissent was encountered. It is important to note that in each of the policy areas where domain dissent was observed, the Bank and the Fund carried out independent assessments and came to independent conclusions about the stance to be taken vis-à-vis the borrowing government. This observation suggests the following: If there been a clear division of labor in place and had only one organization analyzed the issue in question, domain consensus would have been more likely.

The fourth driver of domain dissent is not internal to the Bank and the Fund, but part of the country setting in which they operate. The evidence suggests that at least to some extent, domain dissent is driven by the negotiation strategy of borrowing governments. In four out of five cases of domain dissent, the negotiating position of the borrowing government was strong. Contextual evidence also confirms this relationship: At times, borrowing governments (e.g., the Vietnamese government) demonstrated a remarkable skill in driving a wedge between the two organizations. Such evidence rejects the initial hypothesis regarding technical capacity and confirms Miles Kahler's (1992, 113) finding that donor consistency is inversely related to the bargaining capacity of the borrowing country.[29]

Whereas these four drivers explain the emergence of domain dissent, they fail to explain all cases of Bank-Fund inconsistency. Table 5 shows various policy issues for which the Bank and Fund did not experience domain dissent yet still took different stances. For example, such a situation applies to wage policy in the Ghanaian episode of ambiguity, tax policy in the Peruvian episode of reintegration, and matters of privatization in the Vietnamese episode of crossroads. At first glance, these observations might contradict the results presented above (i.e., the finding that Bank-Fund consistency has always been found associated with domain consensus). Instead, these observations reflect a particular feature of domain dissent: It is contagious and can spill over from one issue area to another. This spill-over effect is hardly

29. Note that this does not support the conclusion that a strong negotiating position on the part of the borrowing government *necessarily* leads to inconsistency between donors. In three out of the four sample countries—Pakistan, Vietnam, and Ghana—there were episodes in which the Bank and the Fund were consistent, despite the government's strong negotiating position.

Box 2 Organizational consistency in the case of liberalization in Ghana

During the Ghanaian episode of liberalization (1987–90), the area of overlap between the Bank and the Fund increased, particularly in the area of macroeconomic policy. Throughout the episode, the Fund's country team took issue with the advice the Bank provided to the government on matters of macroeconomic policy. As one Fund official put it, the Fund's country team felt "irritated" and "annoyed" by the Bank's interest in macroeconomic issues. Furthermore, there is strong evidence suggesting that staff members of the Fund were reluctant to share information with their Bank counterparts in order to defend the Fund's leadership on macroeconomic issues. One staff member of the Fund described this attitude as follows: "We shared some information, but we did not want to get their comments; only their endorsements. We felt that the Bank should not worry about these issues."

The ensuing turf battles led to greater break downs in communication between the two organizations. Fund staff was concerned that insights in ongoing discussions of exchange rate policy would not be kept confidential if Bank staff participated in the Fund's meeting with the government. Therefore, Fund staff made every effort to schedule meeting times in a way that Bank staff could not participate (e.g., by scheduling parallel meetings of little importance that Fund staff strongly recommended their Bank counterparts to attend).

Contributing to difficulties in the Bank's and the Fund's relationship during this episode were the differences in intraorganizational consistency. The issue of civil service reform during this episode provides an example. The Bank and the Fund agreed that Ghana's civil service needed reform. However, the Bank's senior management did not support the preliminary agreement that the Bank's country team had negotiated. This disagreement reflected the fact that the wage bill, as proposed by the Bank's country team, would have exceeded the fiscal target the IMF had negotiated with the government. After discussions between senior staff of both organizations—on the level of the Bank's vice president for operations and the Fund's deputy managing director—the Bank's senior management decided that the civil service reform had to be consistent with the Fund's fiscal targets. The Bank's field staff, however, felt that Washington management yielded to the Fund for reasons other than the technical merits of the Fund's position. As one member of the Bank's staff put it, "the Bank's management was not prepared to back their economists." Given the weakness of the Bank's country team, not only the government but also the Fund's country team preferred to deal with the Bank's senior manager. Against this background, it is not surprising that recommendations the Bank's country team presented to the government differed from those of the Fund's team.

During this episode, the government held such issues like civil society reform as lower-priority than the Bretton Woods organizations and seemed to benefit from inconsistency between the two organizations. One member of Ghana's Economic Management Team said that "there were some things we would not have achieved if the two organizations had cooperated more closely." Reflecting the government's strategic management of its relationship with the Bretton Woods sisters, another Ghanaian official stated, "With the IMF and the World Bank, it is like in boxing: You want to be close to your adversary." As such, Bank-Fund inconsistencies broadened the government's room for maneuver and made it easier for the government to pursue its own preferences.

surprising given the way the Fund and the Bank work. In many instances, the same individuals work on various issues. Hence, once domain dissent emerges in one issue area it may lead staff members to become more reluctant to share information not only in this area, but also in other areas.

Different Operational Styles

In addition to the drivers mentioned above, domain dissent also seems to have been driven by another factor measured as a separate variable, namely the differences in the two organizations' operational

styles. Taking a closer look at the research, this variable was measured on the basis of the following three indicators: similarity in the degree of staff turnover, similarity in the degree of intraorganizational consistency, and similarity in the two organizations' operational speed.[30] As shown in table 6, differences in the degree of staff turnover have been the most frequent indication of different operational styles.

Compared with domain dissent, differences in the Bank's and the Fund's operational styles show an important difference: As mentioned above, domain dissent was primarily driven by the attitude of Fund staff as there was no single incidence of Bank staff disapproving of the scope of the Fund's operations. Concerning different operational styles, the opposite applies: Variation stems from differences primarily in Bank operational consistency, speed, and staff turnover across countries. The Fund, however, demonstrated remarkable consistency in operational style geographically and over time.

Based on the contextual evidence, the study identified three channels of transmission through which different operational styles contribute to inconsistency. First, higher staff turnover rates in the Bank compromised professional relationships and communication patterns needed to ensure consistency. High levels of (perceived) staff turnover (as expressed in the course of interviews with the Bank's counterparts in the Fund as well as within the government) often led to the impression of rupture in the Bank's working relationship with others. Country evidence showed that productive working relationships often eroded due to insufficient briefing of incoming staff and/or confidence between counterparts being lost amidst high turnover rates. On the other hand, the Fund's more centralized decision-making structure and greater emphasis on protecting institutional memory meant that even where turnover existed, perception of rupture and setbacks was that much smaller.

The second channel operates via different levels of intraorganizational inconsistency. For example, the research found that the Bank's representatives in borrowing countries often presented a different view than the Bank's senior management in Washington. Whenever the Bank sent different signals, it may have led to some frustration on behalf of the Bank's counterparts since it can foster doubts as to whether the Bank's mission in the field (or its resident mission) represents the view of the organization.[31] The Fund, in contrast, pays substantial attention to ensure that its staff members present a unified and consistent message to the outside world. The authority to speak on behalf of the organization to outsiders—whether member countries or the public at large—is subject to strict rules and usually reserved for senior staff members. Before any statement is made, a comprehensive (some say, somewhat excessive) system of iterative reviews ensures that it is consistent with the organization's view.[32] As a result of this difference,

30. In coding this variable, positive evidence for at least one of these three indicators has been considered sufficient to consider the two organizations' operational styles as different.

31. This sense of frustration has been described in the external evaluation of the Fund's programs for Vietnam by stating that "the asymmetry in the level of authority exercisable by Bank and Fund resident missions—Bank resident missions have greater decision-making authority than Fund resident representatives—makes it difficult to conduct proper dialogue on, and coordinate, policy discussions in the field as conflicts often have to be deferred to Washington" (IMF 1998, 95).

32. This high level of intraorganizational consistency has important implications for the autonomy the Fund's country teams enjoy once they are "on mission" in the field: Before the mission leaves Washington, various departments in the Fund agree on a mission brief that lays out the purpose of the mission at a considerable level of detail. For more details on the Fund's internal processes of review and control, see Harper (1998).

Fund staff became reluctant at times to treat the Bank's missions in the field as counterparts. An example of this dynamic was found during the Ghanaian episode of liberalization, documented in box 2.

Different operational styles can also translate into inconsistency via a third channel: different operational speeds. As mentioned in the previous section, the Fund was set up to deal with crisis situations and so is capable of very rapid operations. The Bank's more long-term focus tends to translate into less agility, operationally speaking. The country case studies showed that frustrations arising between the Fund and the Bank from their different operational speeds often led to duplication of efforts. For instance, the Fund staff, frustrated with the Bank's failure to meet ambitious deadlines for their contributions, would often carry out the tasks themselves. The duplication of efforts would often lead to break downs in communication and inconsistency. This corresponds to one of the findings of the external evaluation of the Fund's program under the ESAF (IMF 1998, 58).

Among the Fund staff, there is some impatience with what is perceived as indecision on the part of the Bank on key issues within its core competence (especially expenditure analysis) and undue tardiness in delivering inputs for joint documents and programs.

Summary: What Drives Consistency?

The empirical evidence shows that Bank-Fund consistency depends critically on the level of communication between the two organizations. Furthermore, the evidence collected at the country level suggests that the most difficult factor that Bank and Fund staff must overcome to ensure domain consensus is the difference between the two organizations' operational styles. Such differences represent not only the different objectives of the two organizations, but also their distinct operational models. To the extent that the differences between the two organizations' operational models further increase, consistency will become more difficult to achieve, especially with for example, the Fund remaining a highly centralized organization and the Bank strengthening its local operations in the borrowing countries.

Whereas both domain dissent and differences in the Bank's and the Fund's operational styles provide an explanation for Bank-Fund inconsistency, it is neither one of these two conditions alone, but their combination that explains whether or not the Bank and the Fund cooperate. As mentioned above, the two variables have been found to be highly correlated and are both closely tied to the extent of communication between the staff members of the two organizations: Whereas well-established communication channels may ensure domain consensus, thus preventing domain dissent, differences in the Bank's and the Fund's operational styles may undermine communication on the staff level. The country case studies provide ample evidence that different operational styles make communication not only more costly, but also less likely, thus increasing the potential for communication shortfalls to undermine consistency.

From management's point of view, these findings are good news: They imply that the two conditions that determine Bank-Fund consistency are endogenous to Bank-Fund management. Those

variables that relate to the country setting in which the Bank and the Fund operate—the sense of crisis, the government's negotiating position, and the government's technical capacity—do not show any significant correlation with Bank-Fund cooperation independent of the effect via domain dissent. Hence, whether or not the Bank and Fund cooperate seems to be mostly a matter of organizational management rather than a matter of external conditions.

Table 4 Summary of evidence of episodes

Country	Episode	P	A	M	R	S	I	N	O	D	C
Ghana	Turnaround	1	0	1	1	1	0	0	1	1	1
	Rehabilitation	1	1	n.a.	1	0	0	1	1	1	1
	Ambiguity	1	1	1	0	0	1	1	0	0	0
	Liberalization	0	1	1	1	0	1	1	0	0	0
	Democracy	1	1	1	1	0	0	1	0	1	1
Vietnam	Opening	1	0	0	0	0	1	1	1	1	1
	Reform promotion	1	1	1	1	0	1	1	1	1	1
	Crossroads	1	1	1	1	0	1	1	0	0	0
Pakistan	Bureaucratic rule	1	0	0	0	0	1	1	1	1	1
	Turbulent transition	1	1	0	0	0	0	1	1	0	0
	Democratic take-off	1	1	0	1	0	1	1	1	1	1
	Deadlock	1	1	1	1	0	1	0	0	0	0
	New momentum	1	1	1	1	0	1	0	1	1	1
	Crisis management	1	0	1	1	0	1	0	1	1	1
Peru	Firefighting	1	0	1	1	1	1	0	1	1	1
	Reintegration	1	0	n.a.	1	0	1	0	0	1	0

n.a. = not available

A = Agreement of cooperation on operational level
C = Cooperation between the Bank and the Fund
D = Domain consensus
I = Similarity in each organization's exposure to borrowing country
M = Similarity of resident mission arrangements
N = Negotiating position of government
O = Similarity of operational styles
P = Personal friction between senior staffs
R = Similarity of each organization's relationship with recipient country
S = Sense of economic crisis

Source: Fabricius (1999).

Table 5 Summary of evidence of issues

Issue area	Issue	Episode	Country	P	A	M	R	S	I	N	O	D	T	U	G	C
Aid		Democracy	Ghana	1	1	1	1	0	0	1	0	1	0	0	0	1
		Crossroads	Vietnam	1	1	1	1	0	1	1	0	1	0	0	0	1
Cocoa		Turnaround	Ghana	1	0	1	1	1	0	0	1	1	1	0	0	1
		Rehabilitation	Ghana	1	1	n.a.	1	0	0	1	1	1	1	0	0	1
		Liberalization	Ghana	0	1	1	1	0	1	1	0	1	1	0	0	0
Financial sector		Crossroads	Vietnam	1	1	1	1	0	1	1	0	0	0	0	0	0
	Treasury Bill	Deadlock	Pakistan	1	1	1	1	0	1	0	0	1	0	0	0	1
Fiscal	Wage increase	Ambiguity	Ghana	1	1	1	0	0	1	1	0	1	0	0	0	0
	Civil service reform	Liberalization	Ghana	0	1	1	1	0	1	1	0	0	0	1	1	0
	VAT	Democracy	Ghana	1	1	1	1	0	0	1	0	1	0	0	0	1
	Tax	Reintegration	Peru	1	0	n.a.	1	0	1	0	0	1	0	0	0	0
		Turbulent transition	Pakistan	1	1	0	0	0	0	1	1	0	1	0	0	0
Macro		Ambiguity	Ghana	1	1	1	0	0	1	1	0	0	1	0	0	0
		Liberalization	Ghana	0	1	1	1	0	1	1	0	0	1	0	0	0
		Opening	Vietnam	1	0	0	0	0	1	1	1	1	0	0	0	1
		Reform promotion	Vietnam	1	1	1	1	0	1	1	1	1	0	0	0	1
		Firefighting	Peru	1	0	1	1	1	1	0	1	1	0	0	0	1
Privatization		Liberalization	Ghana	0	1	1	1	0	1	1	0	1	0	1	1	1
		Reform promotion	Vietnam	1	1	1	1	0	1	1	1	1	0	1	1	1
		Crossroads	Vietnam	1	1	1	1	0	1	1	0	1	0	1	1	0
		Reintegration	Peru	1	0	n.a.	1	0	1	0	0	1	0	1	0	1
		Deadlock	Pakistan	1	1	1	1	0	1	0	0	1	0	1	0	0
Trade		Ambiguity	Ghana	1	1	1	0	0	1	1	0	1	1	0	0	0
		Reform promotion	Vietnam	1	1	1	1	0	1	1	1	1	0	0	0	1
		New momentum	Pakistan	1	1	1	1	0	1	0	1	1	1	0	0	1
	Regular duty	Crisis management	Pakistan	1	0	1	1	0	1	0	1	1	1	0	0	1

n.a. = not available

A = Agreement of cooperation on operational level
C = Cooperation between the Bank and the Fund
D = Domain consensus
G = Extent of disagreement between government and Bank/Fund
I = Similarity in each organization's exposure to borrowing country
M = Similarity of resident mission arrangements
N = Negotiating position of government
O = Similarity of operational styles
P = Personal friction between senior staffs
R = Similarity of each organization's relationship with recipient country
S = Sense of economic crisis
T = Technical capacity of government
U = Ambiguity of comparative advantage

Source: Fabricius (1999).

Table 6 Different operational styles and indicators of difference

Episode	Country	Similarity in operational styles	Difference in: Degree of staff turnover	Intra-organizational consistency	Operational speed
Turnaround	Ghana	1			
Rehabiliation	Ghana	1			
Ambiguity	Ghana	0	X	X	
Liberalization	Ghana	0	X	X	X
Democracy	Ghana	0	X		
Opening	Vietnam	1			
Reform promotion	Vietnam	1			
Crossroads	Vietnam	0	X	X	
Firefighting	Peru	1			
Reintegration	Peru	0			X
Bureaucratic rule	Pakistan	1			
Turbulent transition	Pakistan	1			
Democratic take-off	Pakistan	1			
Deadlock	Pakistan	0	X	X	
New momentum	Pakistan	1			
Crisis management	Pakistan	1			

Source: Fabricius (1999).

III. ROOM FOR MANEUVER: THE CHALLENGES FOR ENSURING CONSISTENCY

The Bank and the Fund have introduced new initiatives over the last decade to promote greater cooperation. Such measures have come about largely in response to criticisms over the organizations' handling of the Asian Crisis and increasing calls for the two organizations to strengthen their collaboration.[33] In a similar vein, the two organizations—in particular, the Fund—had been urged by outsiders on various occasions to make their operations more transparent.[34] The initiatives' success of ensuring that the two Bretton Woods organizations speak with one voice has been mixed at best. Some would even say they have failed.[35] As described in the introduction, explicit efforts to improve consistency between the two organizations go back 40 years but have typically been informed only by anecdotal information and infrequent external assessments rather than empirical data. The following section discusses some of these key initiatives for enhanced collaboration in light of the empirical findings of this study, namely the conditions under which the two organizations cooperate. Specifically, the research shows that the mixed outcomes of the initiatives to improve Bank-Fund cooperation may be explained by their inadequacies at addressing such fundamental issues as domain consensus and differences in organizational styles. Drawing from the lessons of the study the second half of the section identifies the major challenges the Bretton Woods sisters will face and possible approaches they can take to ensure greater Bank-Fund consistency.

Recent Mechanisms of Cooperation

All Bank-Fund initiatives focused on cooperation were built upon a 1966 agreement that explicitly laid out the "primary responsibilities" of each organizations and outlined the procedures for the two to work together (Boughton 2001, 997). Since 1966, the Bank and the Fund have reaffirmed and adjusted these general guidelines, typically following rather publicly failed attempts to see eye-to-eye. Their most prominent reaffirmation of these principles was the 1989 Concordat on Bank-Fund collaboration

33. For instance, a group of IMF-commissioned independent experts recommended closer collaboration and clearer delineation of responsibilities in areas of overlapping interest like fiscal policy (IMF 1998, 58). In the following year, the G-7 Finance Ministers "called for an increase in the 'breadth and pace' of efforts of collaboration by the Bank and the Fund" to increase effective use of resources to "improve the early detection of weaknesses in financial systems and crisis response, the design and delivery of financial sector programs, and technical assistance for member countries" (IMF and World Bank 1999, paragraph 2).

34. Calls on the Bretton Woods organizations to increase transparency have typically focused on providing access to internal documents in a timely fashion, transparency in decision making, and greater external review processes (Kahler 2006, 266). In response, both the Bank and the Fund have increased public access to their operational documents. According to a 2005 Fund report, it had published 77 percent of Article IV consultations and 58 percent of country staff assessments (IMF 2005, 4). The World Bank has also increased information sharing efforts as stipulated in its 2002 Policy on Disclosure of Information (see World Bank 2005). However, due to the sensitivity of some of the information contained in Bank and Fund documentation, extreme levels of transparency may open countries up to political and macroeconomic vulnerabilities, creating resistance by member governments (Kahler 2006, 267).

35. Edwin Truman (2006b, 16) in his book about strategies for IMF reform states that, "all past efforts [for Bank-Fund collaboration] have been halfhearted and failed."

following the organizations' disagreements over lending operations to Argentina.[36] As discussed in the introduction, the 1989 Concordat dealt specifically with the growing tendency of Bank and Fund activities to overlap and the subsequent need for clearer delineation of roles and mechanisms for resolving conflicts between the sister organizations (IMF 1989, paragraph 5). In general, Bank-Fund collaboration continues to be guided by this agreement (Boughton 2001, 1004).

The public nature of the two organizations' disagreement during the Asian Crisis put Bank-Fund consistency under greater scrutiny by their stakeholders and ushered in the need for new mechanisms for working together. An important advance for promoting interorganizational cooperation was laid out in a 1998 joint statement issued by the Bank's president and the Fund's managing director on Bank-Fund collaboration. In light of the greater overlap in operations, the leaders of the two organizations reaffirmed that better collaboration was needed and announced three principles to achieve such cooperation. First, those involved in country operations should have a clear understanding of each organization's responsibility and the relationships between the two organizations. Second, consultations between the staffs of the two organizations should begin at an early stage and continue throughout the operational cycle "to ensure a coherent approach and reduce redundancy" (IMF and World Bank 2001, iii). Third, each organization should be held separately accountable for its own operations (IMF and World Bank 2001, iii). More generally, the programs of the Bank and the Fund "should be complementary and part of an overall reform agenda owned by the member country" (IMF and World Bank 2001, 3).

Against the background of earlier guidelines on Bank-Fund cooperation, this announcement was noteworthy, because it showed that the two organizations were prepared to learn from past collaboration efforts, specifically the less-than-satisfactory PFP process described in section I. The principles announced in 1998, then, can be interpreted as an attempt by the Bank and the Fund to rectify the main weaknesses of the PFP, namely the asymmetry in the document's operational importance in each organization, the lack of the document's specificity in outlining policy targets, and the failure to effectively engage the borrowing government in the process. Most notably, this latter weakness with the PFP process underscored the need for more substantial country involvement and pushed the Bank and the Fund to acknowledge country ownership as an emerging priority of development cooperation. By many standards, country ownership had come to be considered an important component of successful poverty reduction and development (IMF and World Bank 2001, 2–3). Empirical studies addressing the question of what made economic reform programs successful had found government ownership to be one of the key factors. For example, in its review of program performance, the Fund's Policy Development and Review Department (PDR) found that "a substantial proportion of program interruptions [had been] attributable to policy disagreements between governments and the Fund staff" (IMF 1998, 20–21). Hence,

36. As Woods (2006, 51) describes, "[t]he rules on collaboration broke down over Argentina in 1988 when the World Bank announced a new loan to that country before the IMF mission had completed its negotiations with the Argentine authorities." As Woods suggests, the public nature of this disagreement forced the two organizations to come up with a new agreement to guide their collaboration, namely the 1989 Concordat.

ownership had come to be considered a necessary condition of successful policy reform and program implementation.[37]

In summary, the announcement of new principles for Bank-Fund collaboration in 1998 served as a departure from earlier practices specifically in addressing weaknesses of past mechanisms for Bank-Fund cooperation. However, the principles alone were hardly sufficient to lead to changes on the operational level. To trigger these changes, the two organizations introduced new processes and procedures which vary between different groups of countries.

Low-Income Countries

For low-income countries, cooperation between the Bank and the Fund is carried out through joint preparation of the Poverty Reduction Strategy Paper (PRSP).[38] The Bank and the Fund established this mechanism in 1999 to ensure coordination between the two organizations in light of the inadequacy of the PFP and the growing need to coordinate lending to the organizations' highly indebted clients.[39] The PRSP was designed to be a comprehensive statement of the borrowing country's strategy for generating sustainable growth and reducing poverty that would guide the Bank's and the Fund's operations (IMF and World Bank 2001, 7). As shown in box 3, the PRSP approach is to follow several principles and typically consists of four core elements, i.e., a description of the country's participatory process; poverty diagnosis and targets; indicators and monitoring systems; and priority public actions. The PRSP not only serves as the basis for all lending operations of the Bank and the Fund but also for other organizations.

The process of drafting the PRSP was designed to ensure the consistency of the Bank's and the Fund's stances by forcing them to develop a common view on the appropriate policy advice for the country. The government should prepare the PRSP in consultation with civil society and private sector actors in addition to development partners like the Bank and the Fund. The two organizations are supposed to meet early in the process and communicate frequently (IMF and World Bank 2001, 7, 9). Bank-Fund consistency is to be ensured as follows: Once the PRSP is written, the staffs of the Bank and the Fund provide a Joint Staff Assessment (JSA) of the country's strategy and of the adequacy of the PRSP as a basis for concesssional lending by the two organizations (IMF and World Bank 2001, 7). In developing this joint perspective, the Bank's and the Fund's staffs operate in close coordination, e.g., in joint missions. The Bank and the Fund use the PRSP to determine appropriate instruments and the

37. The importance of ownership received particular emphasis during the tenure of the IMF's former managing director, Michel Camdessus. In his farewell address, Camdessus went as far as stating that "the IMF's ultimate objective was country ownership of economic reform programs." He pointed out that "success [of a program] lies in national 'ownership' of the policies, through a participatory approach that engages civil society in a constructive dialogue" (*IMF Survey* 29/4, 49–51).

38. Low-income countries are typically defined by per capita income levels, currently per capita gross national income of $895 or less according to 2005 World Bank's *World Development Indicators*. As of August 2006, there were 54 countries qualifying as low-income under this definition (World Bank 2005).

39. The PRSP came out of the enhanced Highly Indebted Poor Countries (HIPC2) initiative launched by the Bretton Woods organizations in 1999 to provide debt relief to the poorest countries. As a prerequisite for debt forgiveness and lending, the Bank and the Fund are required work with government authorities to develop a PRSP with participation of civil society (Birdsall and Williamson 2002, 2).

Box 3 Principles underlying the Poverty Reduction Strategy Paper (PRSP) approach

Country-Driven

- Country ownership of a poverty reduction strategy is paramount. Broad-based participation of civil society in the adoption and monitoring of the poverty reduction strategy tailored to country circumstances will enhance its sustained implementation.

Results-Oriented

- An understanding of the nature and determinants of poverty and public actions that can help reduce it is required for the formulation of an effective strategy.
- Medium- and long-term goals for poverty reduction, including key outcome and intermediate indicators, are needed to ensure that policies are well designed, effectively implemented, and carefully monitored.

Comprehensive

- Sustained poverty reduction will not be possible without rapid economic growth; macroeconomic stability, structural reforms, and social stability are required to move countries to a higher path of sustainable growth.
- Poverty is multidimensional; specific actions are needed to enable poor people to share in the benefits from growth, increase their capabilities and well being, and reduce their vulnerabilities to risks.
- A poverty reduction strategy should integrate institutional, structural, and sectoral interventions into a consistent macroeconomic framework.

Partnerships

- Government development of a strategy can provide the context for improved coordination of the work of the Bank and the Fund, as well as that of regional development banks and other multilaterals, bilateral assistance agencies, NGOs, academia, think tanks, and private sector organizations.

Long-Term Perspective

- A medium- and long-term perspective is needed, recognizing that poverty reduction will require institutional changes and capacity building—including efforts to strengthen governance and accountability—and is therefore a long-term process.
- National and international partners' willingness to make medium-term commitments will enhance the effectiveness of their support for a poverty reduction strategy.

Source: IMF and World Bank (1999, 6).

conditions that should be linked to the disbursement of their resources. The staffs' JSA is presented to the Bank's and the Fund's Board together with the PRSP.

To coordinate their concessional lending to low-income countries, each organization established lending facilities and instruments which address policies specific to their respective core areas of expertise. Replacing the ESAF, the Fund introduced a new facility, the Poverty Reduction and Growth Facility (PRGF), which addresses "monetary, fiscal, and exchange rate policies; the institutional arrangements underlying these policies; and structural aspects closely related to them, including those in areas of overlapping responsibilities, such as the financial sector, tax administration, and governance" (IMF and World Bank 2001, 8). The Bank, for its part, introduced the Poverty Reduction Support Credit (PRSC) as a flexible development assistance instrument for low-income countries. The PRSC is based on the

Bank's Country Assistance Strategy (CAS), a document the Bank develops in accordance with the PRSP. The PRSC principally addresses policies related to the country's "social, structural, and sectoral policies, and of its public expenditure, financial management, and procurement systems" (IMF and World Bank 2001, 8–9). In assessing the borrowing country's macroeconomic performance, the Bank's staff draws on the Fund's advice and follows the Fund's view (IMF and World Bank 2001, 8–9). Conditions tied to specific lending agreements are limited to each organization's respective core area of expertise.

Middle-Income Countries

In several ways, the Bank's and the Fund's approach towards cooperation in middle-income countries resembles their approach towards low-income countries and includes some of the same arrangements.[40] The major difference, however, is that dealings with middle-income countries are not guided by any formal process like the PRSP or the related facilities in the two organizations. In other words, there is no collaborative vehicle comparable to the PRSP for middle-income countries. Instead, the Bank and the Fund rely on their traditional lending instruments.[41] As a result, the Bank and the Fund cooperate less formally with middle-income countries than with low-income countries.

Consequently, Bank-Fund cooperation vis-à-vis middle-income borrowing countries hinges critically on effective communication at the staff level. Since Bank and Fund staffs are not required to prepare a joint document (like the JSAs for low-income countries), they are expected to develop a common understanding and perspective on the basis of various documents. As a result, ensuring consistency is even more challenging, as it requires Bank and Fund staff to make extra efforts in order to achieve the necessary level of communication. In their guidelines to staff on middle-income countries, the Bank and the Fund management point out that while the components needed for a common understanding are usually available, they still need to be pieced together. As the Bank and the Fund put it, "in the absence of a PRSP-like statement of the country's program, Bank and Fund staff will need to base their shared view of the government's program on the government's public statements and their own analysis" (IMF and World Bank 2001, 13). However, whereas the building blocks are available, the Bank's and the Fund's management allow their staffs to develop the joint view. From the outside, no specific process seems to guide Bank and Fund staff towards integrating various building blocks into a joint perspective.

Lead Agency and Joint Operations

Common in both low- and middle-income country dealings, cooperation between the two organizations is further guided by a division of labor and, in a few select issue areas, carried out through joint

40. Middle income is defined by the World Bank as those countries with per capita GNIs from $876 to $10,725 using 2005 data. As of August 2006, 98 countries fit this category (World Bank 2005).

41. For the Bank, these are structural adjustment loans (SAL) as well as project lending; for the Fund, these are the Fund's traditional short-term lending instruments—in particular, Stand-by Arrangements—as well as its medium-term lending instruments, in particular, the Extended Fund Facility (EFF).

operations. First, the organizations have traditionally aimed for a clear division of labor, where each organization focuses on its core area of expertise. The repeated emphasis by Bank and Fund management to delineate their respective responsibilities has not only been driven by the goal of ensuring Bank-Fund consistency through the various arrangements but also for achieving organizational efficiency. In the words of the two organizations, they intend to "reduc[e] duplication and overlap, develop…more systematic procedures, and promot[e] synergies" (IMF and World Bank 2001, 2).[42]

The "lead agency" concept, originally employed to enable Bank-Fund cooperation on the PRSP process, can be interpreted as a device that allows the two organizations to adhere to this principle of division of labor: Whenever one of the two organizations has a clear comparative advantage in a specific issue area, it leads designing the policy advice. Furthermore, in situations where neither one of the two organizations has a predefined responsibility for the issue area in question, the two organizations must determine which one will lead. In order to improve accountability and to increase transparency, Board documents are supposed to explicitly cover the work of the respective organization and the responsibilities of the lead agency (IMF and World Bank 2001, 6).[43]

The lead agency concept departs from earlier efforts at delineating the two organizations' responsibilities because of its flexibility. In contrast to earlier agreements, the Bank and the Fund explicitly recognize that the exact line of delineation between the two organizations may vary from country to country. For that reason, the responsibilities of the two organizations are not defined in general terms, but need specification in every country setting through the PRSP. Hence, depending on expertise and available resources, a given policy area—say, tariff reform—may be addressed by the Fund in one country, but by the Bank in another setting. This flexibility is not only aimed at allowing the two organizations to respond better to different country conditions, but also to avoid duplication of Bank and Fund efforts thus protecting the two organizations against turf battles, described earlier as domain dissent.[44]

Whereas this division of responsibilities provides guidance in most areas, the two organizations acknowledge that "the delineation of responsibilities [between the Bank and the Fund] leaves several areas of overlap—including elements of financial and public sector reform" (IMF and World Bank 2001, 3).

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42. As discussed by Jonathan Bendor (1985, 33–36) such an approach by the two organizations is fully in line with traditional thinking on administrative structures which considers it fundamental to avoid any form of redundancy. From this perspective, any type of redundancy is wasteful, comparable to friction that interrupts the smooth operations of machines with which organizations are often compared. According to Bendor, this view of organizations is remarkable in that it persists and dominates the thinking of organizations despite simultaneous adherence to principles of competition in other spheres like business, science, or higher education (Bendor 1985, 32). Offering an explanation, Bendor (1985, 284) suggests that there may be psychological obstacles to institutionalizing competition in government as the aversion to redundancy may have deep roots in our conceptualizations of collective, organized action.

43. The procedures for determining the lead agency in the PRSP process stand out for being highly explicit in terms of the nomination of one organization to take the lead and for promoting transparency and accountability in terms of sharing full documentation of that organization's recommendation with the Boards of both organizations. What is not transparent, however (at least not to outsiders), is how the two organizations proceed in deciding which one has a comparative advantage in a given issue area.

44. Although less explicit, the lead agency concept has been extended to cooperation between the Fund and the Bank in middle-income countries as evidenced in the 2004 Bank-Fund progress report on collaboration and corresponding case study for cooperation between the two organizations in Bulgaria (IMF and World Bank 2004, 15).

In the area of financial sector reform, the Bank and the Fund have decided to engage in joint operations. They imply that the two organizations' operations are guided by set of specific procedures that ensure close coordination between staff members and joint decision making.[45] In order to mitigate conflicts and to guide collaboration, a Bank-Fund Financial Sector Liaison Committee was set up in 1998 (IMF and World Bank 2001, 22). This arrangement can be interpreted as reflecting the two organizations' view that in matters of financial sector reform, neither one of the two organizations is recognized to have a comparative advantage.

For cases in which the combination of division of labor and communication enhancement mechanisms fall short of ensuring consistency, the Bank and the Fund have established a mechanism through which inconsistencies can be resolved. Originally designed to ensure the effective implementation of the PRSP approach, the Bank and Fund management established the Joint Implementation Committee (JIC) in 2000. Among other tasks, this committee seeks not only to ensure consistency in application of the PRSP process across countries, but also to resolve differences between Bank and Fund staff views that cannot be resolved at the regional and area levels. Issues that the JIC cannot resolve are reported jointly to senior management in both organizations. In 2004, the Bank and the Fund announced an effort to strengthen the JIC and expand its mandate to monitor Bank-Fund cooperation in middle-income countries. According to the Bank and the Fund, such an initiative would reestablish the JIC as a body to facilitate implementation of collaborative agreements between the organizations and "help country teams in the two institutions to reach agreement on priorities so as to ensure coherence of policy advice and program design" (IMF and World Bank 2004, 27).

Summarizing the collaborative mechanisms the Bank and the Fund have introduced since the 1989 Concordat, three features need to be highlighted. First, the two organizations have made significant progress in specifying the procedures to help their staff members to coordinate their activities and to ensure that they reach a joint view. In particular, this progress applies to low-income countries where the Bank and the Fund have tied their agreement to a specific document, namely the PRSP. Second, the two organizations have introduced an approach that divides responsibilities between themselves according to their respective expertise in relation to the borrowing country. Third, the Bank and the Fund have come to acknowledge ownership as an important goal of their operations. In what may be a result of this emphasis, the two organizations have significantly increased the transparency of their operations. However, in ensuring consistency, the Bank and the Fund continue to face several challenges.

45. The two organizations issued guidelines in 1999 for good collaboration over financial sector issues with a focus on improving communication. Correspondingly, these guidelines outline procedures for staff to establish contact lists, share information, coordinate work programs, undertake joint missions, provide consistent advice to country authorities, negotiate financial sector conditions, handle confidential information, and avoid possible conflicts of interest related to highly market sensitive information (IMF and World Bank 2001, 22–23). The Financial Sector Assessment Program (FSAP) was established in that same year as a mechanism through which Bank, Fund, and national authorities collaborated to identify potential vulnerabilities of a given country's financial sector and to promote financial-sector development (World Bank 2005, 1).

Challenges

The ever changing context in which the Bank and Fund operate poses numerous challenges to the organizations' efforts to ensure effective cooperation. Increasing overlap of issue areas for their operations, lack of incentive mechanisms for staff cooperation, and increasing importance of country ownership in lending agreements can all compromise the Bretton Woods sisters' ability to work together in a coherent manner. The following sections describe these challenges in detail and propose possible avenues for overcoming them.

Challenge 1: Division of Labor Is Not Always Feasible

As discussed earlier in the section, the division of labor principle has guided Bank-Fund efforts for cooperation throughout the organizations' histories to reduce overlap and promote consistency. However, in practical terms, such division of labor poses its own challenges (two specifically) to achieving consistency between the Fund and the Bank. First, achieving a clear division of labor assumes that each organization's comparative advantage is easy to define, which is not always the case in overlapping areas. The lead agency concept should help in cases of ambiguity by forcing the two organizations to agree on which of them has the comparative advantage in a particular area. However, this assumes that whenever such ambiguity arises, the two organizations can and will agree. Evidence collected in the course of this study's country research presented in sections I and II shows that this might not always be feasible. As shown in table 7, there were numerous instances in which the comparative advantage of each organization was not clear. Thus unless the comparative advantage of each organization can be clearly defined, the remaining ambiguity can lead to inconsistency.

Relying on formal divisions of labor to ensure consistency is also problematic because of the interdependence between different policy variables. Generally, such a division makes the Fund responsible for the aggregate management of the economy and the Bank responsible for individual sectors. Such a distinction is highly artificial calling into question the viability of any division of labor. The two organizations may take different perspectives while they address the same variables. Polak (1997) describes this for the example of fiscal policy. This case demonstrates the difficulty in separating the responsibility between the Bank and the Fund and the corresponding limits to any division of labor between the two organizations.

Given these challenges, it is not surprising that the various arrangements to promote a division of labor between the Bank and the Fund have fallen short of ensuring consistency in all cases. For example, various instances of inconsistency occurred in spite of multiple collaborative agreements and mechanisms—in particular, the PFP process and the 1989 Concordat. Even in cases where the lead agency concept determines comparative advantage, the necessary procedures may not be sufficiently

explicit. Close coordination and communication are still needed to make this concept effective in practice.[46]

Challenge 2: Communication Needs to Be Embedded in Incentives and Behavior

The second challenge the Bank and the Fund face involves the organizational change needed to ensure effective communication between the organizations. Processes to guide Bank-Fund cooperation, like the PRSP alone, are not enough to ensure consistency. To be effective, such processes need to be enforced, monitored, and accompanied by measures that provide incentives to individuals to behave in the desired way. Hence, the emphasis on communication as a way to improve Bank-Fund collaboration needs to be translated into action on several levels by the organizations' management. This requirement is particularly important in light of the differences that continue to characterize the Bank's and the Fund's operations. In particular, differences in the degree of formality between the Bank and the Fund have been shown to serve as barriers to communication. In many ways, the Fund appears to be a more formal organization than the Bank in terms of its internal sense of hierarchy, rigorously defined processes, and its compliance with them. The Bank's operations, by contrast, seem to be more fluid and informal.[47] Although some progress in the Fund's image has been made in recent years, the difference in formality was cited by some Bank staff in the country research as an explanation for information not being shared. Furthermore, according to the external evaluation of the Fund's high conditionality programs (IMF 1998, 58), "Bank staff complain[ed] that while they share their documents readily with their counterparts in the Fund, there is too much hierarchy and rigidity in the Fund's attitude in this regard."

In addition to formality, each organization places a different value on secrecy and confidentiality, serving as another potential barrier to effective communication. As has been found in the course of country case studies, the perception by a more secretive Fund staff that sharing information with the Bank could lead to leakage has occasionally prevented Fund staff from sharing information.

Given these organizational differences, the Bank and the Fund continue to face considerable challenges to further institutionalizing communication between them. At least until recently, Bank-Fund communication continued to hinge on the personalities involved. To change this scenario, the Bank's and the Fund's senior managers have to tackle nothing short of organizational change. Such a task is both multifaceted and multidimensional, requiring a review of key business processes to adjust operational guidelines and formulate behavioral incentives. Public announcements suggest that the Bank's and the Fund's senior management acknowledge the multifaceted dimensions of this task (IMF and World Bank

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46. It is also worth noting that the potential efficiency achieved through recognition and enforcement of division of labor may have unwanted implications. For instance, when division of labor reinforces turf sensitivity it can lead to domain dissent and subsequently inconsistency.

47. Many observers have characterized this difference in formality as one between Europe and the United States. In fact, such a difference may be attributed to the influence European governments—in particular, the French government—have had in shaping the Fund. The strong influence European governments have had on the Fund may explain why the Fund is often characterized as a "European organization" whereas the Bank is characterized as an "American organization," the latter permitting more fluidity, mobility, and integration of outsiders.

2001, 5). It is less clear, though, whether the measures the Bank and the Fund have taken to date reach far enough to trigger the intended changes. As Truman (2006b, 16–17) points out, misperceptions and mistrust between the two persist:

> The Fund is perceived by the Bank as an organization populated by know-it-all elitists, and the Bank is perceived by the Fund as an organization populated by uncoordinated do-gooders, each with a personal solution to the multiple challenges of development but with no appreciation of budget constraints—financial, political, or administrative.

In this context two requirements still need to be met if the level of Bank-Fund communication is to correspond to the principles that the Bank's president and the Fund's managing director had announced in 1998. First, Bank-Fund communication processes need to be better defined for middle-income countries. Based on the information presented above, such processes have been more effectively defined for low-income countries. Some of the features of the PRSP approach appear to hold great potential for institutionalizing Bank-Fund communication in general. Specifically, these include the detailed descriptions of processes; the requirement that the Bank-Fund view must be presented to the Boards in specific documents at predefined levels of detail; and more generally, the high-level transparency that characterizes the process. Therefore, to ensure that effective Bank-Fund communication is not confined to low-income countries, these more formal features should also be introduced to middle-income countries.

The second requirement is to move beyond merely defining business processes for guiding Bank-Fund communication to introducing appropriate incentives and monitoring systems to track progress on individual staff member compliance. More specifically, the criteria of staff appraisal and staff promotion need to take into consideration the level of Bank-Fund communication.[48] In this respect, a range of measures typically employed in the private sector could potentially benefit the Bank and the Fund in fostering behavioral changes among their staff members. In addition to appraisal procedures, such measures include the strengthening of cross-organizational networks and rotation schemes.

Challenge 3: Minimize Prevailing Differences in Operational Styles and Models

A third major challenge toward improving Bank-Fund communication and cooperation is the persistent and even increasing differences in the organizations' operational styles and models. As found in the country case studies, the Fund staff was found to become impatient with the slow pace of Bank compliance with cooperative arrangements and, in particular, meeting deadlines.[49] In trying to make up for the Bank's perceived delay, Fund staff would start carrying out the work itself thus breaking the division of labor upon which the two organizations had agreed. The result was duplication of work and greater potential for inconsistency.

48. In this context, input for staff appraisal and staff promotion could also be requested from the other organization.

49. See discussion on operational speeds in section II.

In addition to speed, the two organizations' different operational models pose an added challenge to efforts for ensuring consistency. The Bank has gradually decentralized its operations over the past two decades, transferring a significant share of its country operations to the capitals of its member countries.[50] The Fund, in contrast, remains a rather centralized organization and continues to operate primarily out of Washington. As a result, the Bank's and the Fund's resident missions have come to play different roles within each of the two organizations. In the Bank's structure, resident missions have grown in size and in decision-making power.[51] Consequently, being posted to a resident mission has become increasingly important in the typical career paths of the Bank's professional staff. By contrast, the Fund's resident representatives continue to play a rather marginal role in the Fund's operations. Officially, the Fund's resident representative establishes relationships with the Fund's key counterparts in the government but operations are largely driven from Washington.[52]

Overcoming such barriers to Bank-Fund cooperation in light of persistent and increasing operational differences will require greater efforts and resources to ensure consistency. Established collaborative mechanisms may not be enough. The concept of creating joint missions the kind of creative approach needed to overcome differences in organization models, as it helps equalize representation by both organizations in the borrowing country's capital. The implication of taking such measures is that unless top management dedicates the required level of attention and resources, the collaborative mechanisms fall short of ensuring the level of communication that is needed to ensure Bank-Fund consistency.

Challenge 4: Requirement of Ownership Redefines the Game

The recent emphasis placed on borrowing country ownership by both the Bank and the Fund represents a fourth major challenge to promoting consistency. While it is not entirely clear what measures are needed to achieve greater ownership, some guidelines do exist.[53] The challenge in building ownership lies in finding a middle ground between donor requirements and policy measures that garner support within the borrowing country's society. If borrowing governments are forced to carry out policy reforms that do not resonate with their own national priorities and garner support from key constituents, implementation will be undermined. Promoting greater ownership, then, requires more flexible approaches to negotiations that respond to the preferences borrowing governments express during the course of discussions. Doing so means that the Bank and the Fund need to approach negotiations in the spirit of partnership, spending

50. For example, this was found in one of the country case studies: In Vietnam such decentralization translated to the Bank's country operations manager moving from Washington to Hanoi in 1997 (Fabricius 1999, 284–311).

51. The number of professional staff includes both local staff and staff sent from headquarters.

52. The external ESAF program evaluation confirms that Fund resident missions tend to be very small and their staff are not central to the organization's operations. According to the report, some Fund resident representatives "expressed concern about the career advancement possibilities following their postings. [The] general impression is that the role of the resident representative is perhaps not being maximized enough" (IMF 1998, 57).

53. The World Bank's guidelines and operational tool kits elaborated under the Comprehensive Development Framework (CDF) is one such example (World Bank 2004).

more time consulting government authorities and stakeholders and yielding some control over policy choices that traditionally has characterized their position.

Against this background, both the Bank and the Fund have instituted mechanisms in recent years to enhance ownership not only to further engage national authorities but to make governments consult more with their own populations. Not surprisingly, the Bank, however, appears to have advanced further in promoting ownership than the Fund. The organization has made ownership one of the four main priorities of its Comprehensive Development Framework (CDF) for working with countries on policy reform and development initiatives. Staff guidelines and country tool kits help to operationalize this goal (Handoussa and Lancaster 2005). The Bank's ability to promote country ownership may be due to the organization's relative flexibility in developing policy proposals. In contrast to the Fund which, at times, arrived in a country with a set agenda and policy proposal,[54] the Bank makes an effort during the early stages of negotiation to consider different possible packages together with the borrowing government (van der Geest 1994, 190).[55]

The distinct levels of institutional flexibility and corresponding different paces of adjustment to foster country ownership within their operations seem to have contributed to the asymmetry in the triangular relationship between the Bank, the Fund, and the borrowing country. In many borrowing countries, it seems, the Bank developed a set of relationships with a broad range of counterparts—the Fund, by contrast, appears to remain at arm's length. Without more substantial efforts and resources, this asymmetry will make Bank-Fund cooperation more difficult to achieve.

Conclusion

Though recent efforts to strengthen Bank-Fund collaboration have generated progress on certain fronts, significant challenges remain. Some of these challenges—notably, the differences in operational styles and the limits inherent to trying to divide responsibilities between increasingly overlapping organizations—have been persistent across numerous attempts at promoting consistency. Other challenges, however, have emerged only recently like the increasing divergence of the two organizations' operational models. As a result, communication between the two organizations becomes increasingly costly.

Hence, the Bank's and the Fund's ability to ensure consistency hinges on top management's strong commitment to taking action on the three priority areas discussed above: defining processes for guiding Bank-Fund dealings with middle-income countries, creating incentives for staff in both organizations to engage in communication, and formulating arrangements to bridge the differences in operational styles.

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54. As pointed out in the evaluation of ESAF programs, Fund staff was often found "to [come] to negotiations with fixed positions so that agreement was usually only possible through compromises in which the country negotiating teams moved to the Fund's positions" (IMF 1998, 36).

55. In a 2004 progress report on Bank-Fund collaboration, a survey to authorities of borrowing governments confirmed this perceived difference in flexibility: "[W]hereas 20 percent of the respondents believe that the Bank is *very flexible* in program design, the corresponding figure for the Fund is only 11 percent." This difference was also observed within the organizations themselves: "Almost 90 percent of Fund staff responses indicate that they consider the World Bank to be *rather* or *very flexible* in discussions with authorities and donors, but less than 75 percent of the Bank respondents consider Fund staff to be *rather* or *very flexible"* (IMF and World Bank 2004, 13).

However, commitment at the top is not enough. Such institutional change also needs to be managed at multiple levels to bring all staff on-board. Defining cross-functional coordination mechanisms, measuring performance needs, and triggering cultural adjustments are ways to do so. To make this happen, the Bank and the Fund may benefit from some private-sector tools.

The greater challenge, however, is how the increasing importance of ownership is redefining the traditional roles of external donors in general and the Bank and the Fund in particular. As the Bank and the Fund move from imposing what some borrowing countries referred to as a "straightjacket" of policy prescriptions to a greater emphasis on partnership and dialogue, the organizations need to operate in a different mode than in the past. From the Bank's and the Fund's perspective, the increasing importance of ownership requires yielding some of their authority in defining policy measures. The Bank's and the Fund's ability to engage government authorities and other stakeholders in a process of policy development that generates proposals with broad societal support will make them successful in this endeavor. Hence, the process of defining policy measures will need to be longer and more interactive. Regarding Bank-Fund consistency, the increasing importance of ownership raises the question of whether Bank-Fund consistency as a goal is as relevant it was in the past. The next section addresses this question.

Table 7 Overview of policy areas with ambiguous comparative advantage

Issue area	Issue	Episode	Country	U
Aid		Democracy	Ghana	0
		Crossroads	Vietnam	0
Cocoa		Turnaround	Ghana	0
		Rehabilitation	Ghana	0
		Liberalization	Ghana	0
Financial sector		Crossroads	Vietnam	0
	Treasury Bill	Deadlock	Pakistan	0
Fiscal	Wage increase	Ambiguity	Ghana	0
	Civil service reform	Liberalization	Ghana	1
	VAT	Democracy	Ghana	0
	Tax	Reintegration	Peru	0
		Turbulent transition	Pakistan	0
Macro		Ambiguity	Ghana	0
		Liberalization	Ghana	0
		Opening	Vietnam	0
		Reform promotion	Vietnam	0
		Firefighting	Peru	0
Privatization		Liberalization	Ghana	1
		Reform promotion	Vietnam	1
		Crossroads	Vietnam	1
		Reintegration	Peru	1
		Deadlock	Pakistan	1
Trade		Ambiguity	Ghana	0
		Reform promotion	Vietnam	0
		New momentum	Pakistan	0
	Regulation duty	Crisis management	Pakistan	0

U = Ambiguous comparative advantage

0 = There is no consensus on which organization would be best prepared to address the specific issue.

1 = IMF, World Bank, and government agree on which organization is best prepared to address the specific issue.

Source: Fabricius (1999).

IV. TAKING A STEP BACK: IS BANK-FUND CONSISTENCY ALWAYS DESIRABLE?

The previous sections present empirical data to test whether and through what mechanisms the World Bank and the IMF are found to adopt consistent policy stances vis-à-vis borrowing governments. The analysis is carried further by highlighting challenges to consistency and proposals to guide Bank and Fund management to overcome them. However, as will be developed in this section, consistency may not always be desirable. Given the changing environment for policy lending which emphasizes local governance and ownership, there is a higher premium on understanding country-specific factors to make more informed and more successful policy recommendations. This development has specific implications for the operations of each of the two organizations.

Recent evidence from the Asian Crisis and overall criticisms of policy mistakes committed by the Bank and the Fund show that within the current context and considering current operations, the two organizations may be prone to committing errors in their policy advice to borrowing governments. Furthermore, given the emerging consensus about new "keys to success" for policy reform processes (i.e., promoting country ownership and country buy-in on reform priorities), new operational arrangements within the Fund and the Bank may be required. The following section presents two proposals: First, in particular cases where stakes are high regarding potential policy errors, redundancy between the two organizations and/or with third party "experts" may be warranted. In other cases where close interaction on the country level is crucial to developing good policy recommendations, division of labor between the two organizations should be further strengthening leading the Bank to exercise a more prominent role than the Fund in the majority of policy-based lending operations.

Striving for Consistency

Looking back, the Bank's and the Fund's emphasis on speaking with one voice has been based on a series of assumptions. First individual economic policy measures need to be consistent and complementary if they are to be effective and credible. Otherwise, individual measures will fail to trigger the intended responses on savers and investors. Second the need to limit the resource demands on the borrowing governments is another reason to speak with one voice. Designing an economic program usually requires significant contributions from individuals who possess substantial analytic and managerial skills. In many borrowing governments, only a few key individuals may possess such abilities and place a high premium on their time. As a result, the Bank and the Fund have an incentive to enter into negotiations with borrowing governments sharing one consistent view. Third speaking with one voice allows the Bank and the Fund to enhance their negotiating position vis-à-vis the government. As discussed in section II, evidence from the country case studies shows that borrowing governments were often able to exploit even small differences of opinion between the two Bretton Woods sisters by playing them against each other.

The problem with these assumptions is that they are based on one specific view of the relationship between international financial organizations (IFOs) and borrowing governments. It is a relationship characterized by potential antagonism and the possible need to impose strict conditionalities.

Traditionally, in such a scenario, the Bank and the Fund have often found themselves in a quasi-monopolistic position in terms of providing policy advice to their member countries. The rather extensive modeling that develops informed policy recommendations typically requires complex data and inputs. Borrowing countries have often lacked the resources and technical capacity to develop their own proposals or adequately counter Bank and Fund recommendations, at least at the level of technical sophistication that characterizes the Bank's and the Fund's approaches.[56]

This traditional view is very different from the one embodied by an emerging consensus that a partner-like relationship needs to exist between IFOs and borrowing governments. This new kind of relationship requires that IFOs possess in-depth, country-specific knowledge and promote ownership and institution building in order to formulate sound policy recommendations. Therefore, while it is true that the Bank and the Fund have an impressive range of resources and assets on which they can draw (i.e., privileged access to member countries governments, a pool of experiences from across the globe, and a high concentration of expertise), other forms of knowledge and inputs are increasingly needed to formulate policy recommendations. As a result, current forms of collaboration that strive for consistency may actually undermine the Bank's and the Fund's ability to achieve their ultimate goals of equitable growth and economic stability.

Emerging Requirements

As mentioned above, recent experiences have highlighted weaknesses in the Bank's and the Fund's ability to produce sound policy advice. These cases shed light on emerging requirements and success factors to achieve what are now a broader set of goals for policy lending. Namely, two key lessons have emerged. First, the Bretton Woods sisters face a greater "risk of errors" in terms of policy advice and, second, they run the "risk of oversight" of key factors that need to be addressed to promote ownership and country-specific recommendations.

Risk of Errors

The first lesson refers to the fact that the Fund and the Bank have made errors in their policy advice to borrowing countries. Such errors could have been due to flawed analytical frameworks, missing information, or selectivity bias which led the Bank and the Fund to miss some important inputs to their recommendations and corresponding conditionalities. The Asian Crisis provides perhaps the most publicly scrutinized example of such errors and raises the question of whether the operational rigidities within the organizations have increased the risk of errors and raised the stakes in terms of legitimacy when errors occur. Descriptions of the crisis point to the organizations' failure to collect and use the

56. The Bank and the Fund's self-identification as "technical organizations" guided by rational criteria deserves special mention. Whereas this technocratic mindset is powerful in framing problems and providing a methodology to tackle specific tasks, its downside is that some aspects are explicitly ignored giving the organizations only a partial view of a given issue or problem. As Centeno (1993, 311) points out, political aspects are typically overlooked in a technocratic approach.

most relevant information needed to inform their policy recommendations. Critiques of the Fund, in particular, are numerous. In Martin Feldstein's description of the Fund's role in the Asian Crisis, he argues that it followed some flawed analysis resulting in inappropriate recommendations:

> Unfortunately, the International Monetary Fund seized on the troubles in the region as an opportunity to insist on fundamental structural reforms. . . . Attempting to force such fundamental reforms was both counterproductive and inappropriate for the IMF.[57]

In a similar vein, Jeffrey Sachs criticized the program the Fund designed for Korea in 1997 as a "draconian programme. . .[thrown] together in just a few days without deep knowledge of the country's financial system and without any subtlety as to how to approach the problems."[58]

The two organizations acknowledged that they made mistakes in their policy recommendations, but the level of responsibility each assumed differed. Officially, the Fund showed reluctance to admit any errors in its advice and instead pointed the finger at governments. The Fund's then Managing Director argued that it was unable to persuade the affected governments to act sooner when it saw trouble coming "because they were in denial about the problems."[59] He also blamed the "hugely unreliable" economic data the Fund had received from governments as another culprit.[60] According to one commentator, "on the biggest issue it [the Fund] comes to the happy conclusion that it was right all along. The policy failures were mainly of implementation (not its fault) rather than design."[61] The Bank, on the other hand, was more willing to admit its mistakes in the Asian Crisis. Reviewing its performance the Bank acknowledged that its analysis of the situation had suffered from some serious flaws. In an evaluation of its operations in Indonesia the Bank concluded that its officials "ignored corruption, growing repression, and a collapsing financial system in the final years of President Suharto's 33-year rule."[62] In a tone of remarkable frankness, the Bank acknowledged that in their dealings with the Indonesian government, senior Bank officials "did not want to offend Mr. Suharto's government or threaten the image the World Bank had promoted of Indonesia as one of its great success stories."[63] Besides the Asian Crisis, there are other instances where the Bank and Fund have been criticized for errors in their policy recommendations.[64]

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57. *Financial Times*, March 5, 1998.

58. *Financial Times*, December 11, 1997.

59. *Financial Times*, February 9, 1998.

60. *Financial Times*, February 9, 1998.

61. *International Herald Tribune*, January 21, 1999. Compared with the Fund's official response, some individual staff members acknowledged some shortcomings in the Fund's analysis and the design of its policy recommendations. For example, a member of the Fund's staff was quoted as conceding that the Fund "had made some judgments 'too quickly' and mistakenly thought it was simply seeing a repeat of past currency crises" (*International Herald Tribune*, December 3, 1998). To the best of the author's knowledge, admissions of this nature never entered the Fund's official view.

62. *New York Times*, February, 11 1999.

63. *New York Times*, February 11, 1999.

64. For example, Jeffrey Sachs in a December 11, 1997, *Financial Times* article listed several of the Fund's policy recommendations which he disagreed with, namely mishandling reforms in the Soviet Union by imposing a common currency

While the Fund's and Bank's errors were highly scrutinized in the public arena, they are not all that surprising to those who study organizations. Such errors in decision making are not uncommon and are often caused by the organizations' limited capacity to fully absorb the complexity of their respective environments. As Simon's theory of bounded rationality explains, organizations often use shortcuts and specific technical vocabulary to facilitate communication internally. They also typically follow a common set of assumptions and concepts for selecting information to help them translate complex reality into more readily processed patterns. However, such selectivity in absorbing information can also increase the risk of errors, since organizations will screen out some parts of reality that do not fit into the particular concepts applied to select information. According to March and Simon, for an organization, "the particular categories and schemes of classification it employs are reified, and become, for members of the organization, attributes to the world rather than mere conventions" (March and Simon 1958, 165, quoted in Perrow 1986, 125). In this context, individuals within the organization may attempt to be rational, but due to the proverbial blinders they put on, they are only "intendedly rational." Using Simon's terminology, they are "bounded" in their rationality by the limits that internal divisions of labor, communication systems, standard practices, authority systems, training, and indoctrination can cause. As the combined behavior of individuals determines the overall performance of the organization, the organization as a whole is therefore "bounded" or limited.

For both the Bank and the Fund, some evidence exists to support the argument that the two organizations exhibit bounded rationality due in large part to organizational rigidities. In the case of the World Bank, Leff (1988) found Bank staff reluctant to employ a new method for social cost-benefit analysis not only due to operational difficulties (e.g., the data requirements of the new approach), but also because the new approach conflicted with the Bank's internal incentive system (Leff 1988, 80–81). Signs of operational rigidities have also been observed in the Fund. In his critique of the Fund's operations in the Asian Crisis, Joseph Stiglitz (2000, 17–18) points out:

> The mathematical models the IMF uses are frequently flawed or out-of-date. Critics accuse the institution of taking a cookie-cutter approach to economics, and they are right. . . . Time and again, I was dismayed at how out-of-date and how out-of-tune with reality the models Washington economists employed were.[65]

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prematurely, "thereby delaying stabilization and undermining the political support for reforms." He also criticized the Fund's overoptimistic, inaccurate reading of economic variables in Bulgaria contributing to the collapse in that country's GDP and rapid inflation as well as the Fund's failure to anticipate the Mexican and Asian crises.

65. Besides organizational rigidities, the risk of errors by the Bank and the Fund stems from at least two additional sources. First, staff members of both organizations must often work with assumptions and estimations given the scarcity and sometimes questionable quality of data. Doing so leaves room for ambiguity that makes individuals rely on judgment that can lead to different and potentially flawed policy recommendations. Second, the Bank and Fund face a trade-off between operational efficiency and the flexibility needed to collect and analyze relevant information given strict deadlines and operational standards under which they work. The Fund, in particular, tends to emphasize operational efficiency often precluding its staff from taking the time to conduct quality controls and consistency checks. As described by Richard Harper (1998, 176), "the broad set of skills and techniques used on missions enable the economists to produce a staff report *come what may*, i.e. irrespective of the incompleteness of the data they have access to and disregarding (more or less) any contingencies they have to deal with" (emphasis in original).

As described above, recent experiences (in particular, in the context of the Asian Crisis) have shown that the Bank's and the Fund's ability to deliver good policy advice has not gone unquestioned implying a greater (or at least more costly) risk of errors. Given the prominent role the Bank and the Fund play in many borrowing countries and the quasi-monopolistic position in which the representatives of the two organizations sometimes find themselves, this possibility is problematic both from the country's standpoint and in terms of legitimacy of the Bretton Woods sisters. In many countries, the Bank's and the Fund's recommendations have far-reaching implications, making it all the more important for the organizations to develop mechanisms that may reduce the risk of errors. To date, such measures remain largely ignored. An important question, then, is which measures, particularly in terms of operational design, should be taken in order to reduce the risk of errors in Bank and Fund policy advice.

Risk of Oversight

In light of an emerging consensus that successful policy reforms are those that resonate in the borrowing country and match borrowing government's priorities, it has become more important that the Bank and the Fund anchor their analytic work in a broad understanding of the country. As stated in the World Bank's CDF staff guide, "[d]evelopment effectiveness is. . .seriously diminished by failure to tap into local knowledge required for designing and implementing development programs" (World Bank 2004, 14). Therefore, the Bank and the Fund run the risk of overlooking key elements that are crucial to developing appropriate, informed, and feasible policy recommendations. A general lesson to be drawn from development work in the past is that standardized approaches to support individual countries have turned out to be limited.

As Birdsall and Kapur et al. (2005, ix) describe for the Bank: "'[L]everage' cannot rely on the detailed conditionality of a 'nanny bank,' it must rely on Bank staff being politically savvy—sensitive to a country's political constraints. . . . That implies a premium on systematic analysis of local politics and institutions—and on increasing Bank-wide research and analysis of country governance." Both organizations have a mixed record in grounding their recommendations in solid country knowledge. The broader development goals of the Bank's mandate, namely an emphasis on poverty reduction, make such an approach more relevant to the Bank than the Fund. Yet, the effectiveness of the Bank's operations, particularly in low-income countries, remains questionable due to a persistent impression that policies are still handed down to countries who also then find great difficulty in "graduating" from highly concessional lending agreements (Birdsall and Kapur et al. 2005, 14).

Given the mixed success of high conditionality lending for both the Fund and the Bank, the hard lesson to learn has been that no one size fits all. As Birdsall and Kapur et al. (2005, 3) state, "the development community has learned that no single recipe or set of priorities to achieve poverty-reducing growth can be applied across countries." The implications of this growing need to deeply understand the political anatomy of borrowing countries and local governance issues means that development priorities need to be designed on a country-by-country basis and regularly revised. Such a requirement translates

into new operational needs that differ from traditional mechanisms designed to enhance cooperation and consistency between the Bank and the Fund. The following section proposes two changes to operational procedures within and between the organizations to minimize the risks discussed above.

Proposal 1: Operational Differentiation and Redundancy

The Fund and the Bank both aim to develop the best possible policy recommendations based on clearly defined goals, appropriate analytic frameworks, and complete information entering the models as input. Reducing the risk of errors requires that the two organizations use the best expertise available. Given the organizational rigidities and corresponding biases described earlier, one possible approach to do so involves further differentiation of operational procedures in the decision-making processes of the Bank and the Fund and/or with outside organizations. The Bank or Fund should integrate outside expertise either from its sister organization, the academic community, or governments. A series of procedures can use these forms of outside expertise.

Traditionally, outside expertise entered the Bank's and the Fund's decision-making processes by hiring outside experts as consultants or otherwise integrating them into the internal operations. This practice may provide the two organizations with legitimacy vis-à-vis the outside world. However, given the existing internal review processes within the organizations, the independent nature of this expertise can be dampened by organizational biases, diminishing its impact to reduce policy errors.[66] To avoid this possibility and still introduce outside expertise into decision-making processes, one viable operational approach is to set up redundant operations. The principle of redundancy is rather straightforward and commonly employed in various industries, most notably in engineering (Bendor 1985, 26–27): Instead of developing something in one single channel, several channels are employed in parallel. The risk of errors, then, does not depend on any single channel, but on the number of parallel processes, thus allowing organizations to overcome the fallibility of their individual parts. In other words, some duplication can provide a measure of reliability: When one agency fails, a second one may succeed (Bendor 1985, 2).

In terms of Bank and Fund operations, establishing functionally equivalent (i.e., redundant) channels of communication and decision making between the two organizations or a third party can provide a degree of reliability that a single channel (or decision-making process) could rarely attain.[67] Specifically, redundancy helps reduce the risk of error by increasing the level of scrutiny that individuals apply in working on a specific problem. In redundant processes, the results generated by different channels are compared and differences need to be explained. Doing so leads to a deeper analysis of the assumptions, data, and methodology employed and helps test the robustness of the results. Drawing on a standard set of techniques, these findings can then be reconciled and translated into a range of action.

66. Both organizations—the Fund, in particular—pride themselves as having extensive internal review processes to ensure the quality of their advice; however, these review processes may fall short of correcting organizational biases.

67. It is also worth noting that such a proposal is not inconsistent with the overall agreements between the Bank and the Fund about collaboration: The 1989 Concordat does not preclude the two organizations from carrying out their own analysis and even points out that the member governments could benefit from having different perspectives presented (Boughton 2001, 1059).

Furthermore, the element of competition introduced through redundancy will also help reduce the risk of errors: The very prospect of anticipating the comparison with other channels, it is argued, will have a positive effect on the commitment of individuals. Hence, the quality of a team's output is expected to improve when working in parallel with another team assigned to the same task than working alone. Therefore, the concept of redundancy connotes a conscious striving of each channel to generate superior results.

Of course, introducing redundant operations has certain implications that make it more or less desirable as a strategy for reducing errors. As described by Jonathan Bendor (1985, 55) four criteria help determine whether redundancy is preferable to single-channel operations in a given situation: First redundancy becomes more desirable when the probability of failure in a single channel of action, communication, or decision making is higher. Second redundancy is more desirable when the implications of failure would be critical or very costly. Third redundancy is more desirable when the chance that a duplicate agency could discover a superior way to attain the same result that a monopolistic agency achieves is more significant. Fourth redundancy is more desirable when the costs associated with it are lower. Additional costs of redundancy include those costs resulting from the higher degree of complexity in the decision-making process.

Despite the Bank's and the Fund's tendency to try to reduce overlap and avoid duplication, these criteria highlight that in some cases, redundant operations may be warranted for certain areas of the Bank's and the Fund's operations. In particular, this would apply when the cost of failure would be exceptionally high, like in macroeconomic policy. For instance, if the Fund were developing policy recommendations with regard to tax policy in a given country that is closely related to both macroeconomic policy and sectoral policy, the Bank may have sufficient expertise in that area and country to be invited by the Fund to develop its own proposal and compare the final results of each organization. The decision of whether to introduce redundancy depends on whether the policy question justifies including outside expertise in the first place and, if so, whether redundancy is warranted over incorporation of outside experts' advice within internal processes.

Whereas redundancy between the Bank and the Fund offers a way to reduce errors, it also has significant limitations. The potential value of redundancy increases with the difference between each of the channels. The similarity between the two organizations in terms staff members' educational biases, headquarters' location, and distance from their member countries would lead the potential errors of the two organizations to be highly correlated.[68] These similarities call into question whether one of the two organizations could be expected to generate results that would be not only different, but also superior to the one developed by the other organization. Therefore, the best expertise might lie outside both organizations, requiring the Bretton Woods sisters to look beyond 19th Street.

One possible avenue would be to call upon borrowing governments to become a new, independent

68. Homogeneity of this kind has been known to be one of the knottiest problems in the pragmatics of redundancy because it militates against genuine diversity in intellectual perspectives and methods (Bendor 1985, 39, 282). Doubts about the independence of different channels have been one of the key arguments against redundancy.

decision-making channel for developing policy recommendations. Such an approach differs substantially from the traditional "policy dialogue," which periodically incorporates government input, yet tends to limit the degree to which governments can really put forth their ideas.[69] Yet for borrowing governments to be effective as separate channels redundant operations, they need to fulfill two criteria. First government staff members need to demonstrate a high level of technical expertise, sufficient enough to develop policy proposals of the same technical caliber as those produced by the Bank and the Fund. Second the government needs to agree with the general course of policy change that the Bank and the Fund advocate. If these conditions are not met, the policy proposals developed by the government would not have the technical weight or basic elements to be considered by the Bretton Woods sisters as comparable alternatives to their own. If the governments lack sufficient technical expertise, they may be consulted, but will not be in a position to prepare their own policy proposals. If the governments do not agree with the policy change, their proposals may be discounted or negotiations could even become adversarial. If, however, both criteria are met, redundancy that incorporates the borrowing government can serve not only as a strategy for reducing errors but for promoting country ownership of policy reform processes and building technical capacity among governments.

Besides governments, other channels outside the Bank, the Fund, or the borrowing government could be considered for developing policy recommendations. For example, expert groups made up of economists or other specialists in the borrowing country or, alternatively, individuals from an international pool of recognized experts could comprise a channel parallel to the Bank and the Fund.

To the best of the author's knowledge, redundancy has not been exploited by the Bretton Woods sisters. Instead, as discussed in section III, efforts aimed at improving policy recommendations in certain areas where both organizations have expertise (i.e., financial sector policy) has moved towards joint operations. While joint operations may force the two organizations to speak with one voice, they do not necessarily reduce the risk of mistakes in policy recommendations. Since the different channels are not independent from one another, errors in one channel will also affect the other channel.

Given the Bank's and the Fund's current operations, introducing the principle of redundancy would require them to make considerable changes. In practice, this would require a redesign of the Bank's and the Fund's business processes, particularly with respect to both low-income and middle-income countries. Although a detailed description of such operational changes goes beyond the scope of this work, the two organizations would first need to create a procedure for deciding whether to continue as single- or multiple-channel operations. Depending on the outcome of this decision, some operational requirements would need to be defined, like creating a staff structure to select the appropriate channel, coordinate the parallel processes, synchronize the procedures, and ensure the channels work with the same data.

69. In recent years this policy dialogue approach has been enhanced and formalized, particularly through mechanisms like the PRSP in low-income countries and joint engagement in the Bank's Analytic and Advisory Services (World Bank 2004, 22). Nevertheless, as pointed out by Birdsall and Kapur et al. (2005, 14), there is a persistent view that "Poverty Reduction Strategy Papers still reflect country's expectation of what the Bank wants more than their own priorities."

Redundant processes would also require a review mechanism or a point of reconciliation to evaluate the results of both channels.

There are important implications that arise if the Bank and Fund were to shift away from their traditional division of labor and "policy dialogue" frameworks and incorporate redundancy in their operations. Such a change would lead to differentiation in the way policy recommendations and corresponding conditions would be developed: Some policy recommendations would be defined within the Bank or the Fund; others would be made by integrating outside experts into internal processes. Other recommendations—presumably the most critical ones—would be made following a more elaborate process of redundancy. So, depending on the scenario, the Bank and the Fund would not (and should not) necessarily speak with one voice, thus running counter to traditional approaches to achieve consistency. Instead, redundancy provides a new way to improve policy recommendations by reducing errors and even increasing country ownership in cases where governments exhibit sufficient technical capacity to be considered as a separate channel. Introducing redundancy can also reinforce the shift towards a more partner-like relationship between IFOs and borrowing governments characterized by an integrated decision-making process. For example, decision-making processes with the government will, to some extent, be congruent and identical with decision-making processes within the Bank and the Fund.

The negative implications of introducing redundancy include costs associated with operational changes and potentially reduced efficiency through duplication and additional time needed to compare results. Additional time could be minimized in light of the impressive possibilities of teams working at different locations through web-based platforms.[70] Furthermore, such costs could be justified given the far-reaching implications and high cost of errors that the Bank's and the Fund's policy recommendations have for borrowing countries. That said, additional time requirements mean that situations where decisions have to be made quickly, as in crisis situations, would not be suited for redundancy. In such cases, a feasible course of action would consist of engaging in some form of joint operations: Whereas one organization would be in charge of devising the policy recommendation to be presented to the government, ways could be found to ensure that the other organization's expertise on the given subject matter would be taken into account.

Proposal 2: Strengthen Division of Labor Within New Lending Environment

As described above, the emerging requirements for successful policy lending (i.e., attention to governance, buy-in, and ownership), carry with them a greater risk that the Bank and/or the Fund overlook key components to a more country-focused process of developing policy recommendations. In light of this "risk of oversight," a complementary approach should be taken in policy areas that are more closely related to matters of development: The two organizations should move towards a stronger division of labor

70. It should be noted that while additional costs may be associated with introducing redundancy, redundancy is not necessarily inefficient. As described by Bendor (1985, 31) there is no evidence confirming that redundancy is wasteful—instead, there is some evidence that organizational reform along the classical lines of organization theory to reduce overlap does not lead to high savings.

with reduced overlap. In this scenario, the Bank should be responsible for matters of middle- to long-term lending operations to both low- and middle-income countries. The Fund should rely on the Bank's expertise in matters relating to development lending and focus its resources on its core responsibilities of macroeconomic and financial sector matters. This proposal will help further reduce overlap between the two organizations and benefit from the Bank's comparative advantage in middle-term lending arrangements.

Overlap of activities has been a persistent problem for the Bretton Woods sisters. The results of the study presented in sections I and II, though dated, demonstrate this empirically: Domain dissent prevented the two organizations from cooperating even in cases where consistency was desired by both. Overlapping activities between the Bank and the Fund have not seemed to improve the organizations' effectiveness of lending to low-income countries despite ongoing efforts to improve cooperation (Birdsall and Kapur et al. 2005, 1). Instead, such overlap has enhanced operational complexity and, from the recipient's point of view, possibly added to confusion. Since it is not clear that the Fund has any comparative advantage regarding structural, sectoral, and microeconomic matters, there is no strong case for it to be engaged in these lending operations.[71] There is a greater case, though, for a scaling back of Fund activities to focus on its core responsibilities. As Steven Radelet says, "[t]he more the IMF moves in the direction of becoming a development agency (or a quasi substitute for an independent central bank) the further it strays from its core responsibilities articulated in the Articles of Agreement" (Radelet 2006, 402). As such, the Fund needs to step back and let other existing organizations handle these areas.

From an operational point of view, working with recipients close enough to help them develop governance structures and to foster ownership entails certain requirements: The organization needs to have staff, including senior staff, present in capitals through resident missions. These staff members not only need to possess a broad range of relevant expertise across various disciplines but also need to have a prominent role within internal processes rather than serve merely as a spokesperson for headquarters. Furthermore, analytical frameworks that consider factors of governance need to be employed. Given the evidence of the study and subsequent initiatives related to enhancing country ownership, the Bank has moved substantially further in the direction of these requirements than the Fund, making it better positioned to work closely with recipient governments and incorporate their priorities into policy recommendations.[72]

Rather than moving in this direction, the Fund should remain focused on the policy parameters within its core area of responsibility or run the risk of losing some of its operational strengths, namely the ability to operate rapidly in crisis situations. As Truman describes (2006a, 35), there is an imbalance

71. As Truman (2006a, 26) describes, such "mission creep" is seen by some as being driven by different reasons: The changing needs of member governments, the effort of the Fund itself to expand the organization's influence, or by the push of particularly powerful members. Furthermore, anecdotal evidence collected during the course of the empirical research suggests that the Fund's move into structural issues was partly driven by the fact that the Bank sometimes did not deliver the required input in time to comply with the Fund's deadlines. Whatever the reason, there is little in the organization's Articles of Agreement to support this expansion.

72. Nevertheless, as noted by Birdsall and Kapur et al. (2005, 14), the Bank still has a long way to go and further efforts need to be made to fully adjust their advice and conditions to the specificities of individual countries.

between the Fund's ambition regarding its goals and being stretched in resources. The Fund should maintain full authority on policy variables that fall within areas of macroeconomic and financial sectors; for other variables, the Fund should have to rely on the Bank. Rather than conducting its own macroeconomic analysis and developing its own conditions, the Bank would need to rely on the Fund. Such a proposal is in line with one presented by Radelet (2006, 406) in which he recommends that instead of the Bank carrying out its own macroeconomic analyses for its Country Policy and Institutional Assessment (CPIA) system, the Bank should rely on the Fund's assessments of macroeconomic policies in general, and fiscal, debt, financial sector, and possibly trade policies, in particular. Consistency between the two organizations could be achieved if each organization had the authority to approve policy parameters that fall within its area of responsibility (i.e., the Fund would need to provide and approve macroeconomic conditions; the Bank would approve conditions that relate to developmental goals and priorities). Such a proposal would also support a shift in operations for the PRGF from the Fund to the Bank, as proposed by others (Truman 2006a, 26–27). Such a move would be justified by the fact that the PRGF's lending to low-income countries increasingly falls outside the Fund's short-term jurisdiction to finance balance of payments and exchange rate problems and more within the Bank's longer-term development mandate.

Adhering to this proposal would reduce overlap between the two organizations. Both organizations could reduce the amount of resources allocated to matters outside their core areas of responsibility. New resources would become available for each organization to develop mechanisms for providing a "seal of approval" on a specific country's development strategy (Bank) or macroeconomic framework (Fund) regardless of the extent to which the Bank or the Fund are involved in operations that provide financial support to that country. Such services are particularly relevant in light of new modalities emerging for the Fund and the Bank in terms of monitoring and signaling the strength of macroeconomic policies without direct financial involvement—in the form of "unfunded programs" or other "policy support mechanisms" (Birdsall and Kapur et al. 2005, 17). Such a shift has been generated by the resolution (for the most part) of the macroeconomic crises that plagued many low-income countries in the 1980s and early 1990s which means that the IMF's financial role is likely to diminish over time. As a result, resource allocation and analytic work would become less tied to financial operations than it has been in the past.

Implementing the present proposal would entail a scaling back of Fund operations to only its core responsibilities for developing policy recommendations and developing conditions, in line with Timothy Adams (2006, 133–34) by saying that "the best way to strengthen the IMF's relevance is to refocus on the core mission. . .international financial stability and balance of payments adjustment." If this proposal was implemented, the Fund should only be involved in building institutions and those areas that relate directly to its core area of responsibility (i.e, macro and financial sectors) but not beyond.[73] Both the Fund and the Bank would increasingly serve as a brain trust in complementary areas, namely development

73. Such a proposal then runs counter to the recommendation put forth in the September 2005 reports of IMF governors and members of the International Monetary and Financial Committee (IMFC) that the Fund should support more expansive vision of the Fund's role in low-income countries and involvement in building institutions and capacity in low-income countries. As Truman notes, the "IMF members may under appreciate the implications of this suggestion" (Truman 2006b, 5).

(Bank) and macro/financial sectors (Fund).[74] Still, the Fund should move toward hiring staff with a broader skill set, including more expertise in political economy and country experience as suggested by Kahler (2006, 266). However, such expertise would be used for the Fund's core area, and it would not be used not to develop expertise or define policy conditions in areas outside its core responsibilities. In cases that go beyond the Fund's core areas in its own lending operations, it should rely on the Bank's input.

Summary

Given the shifting priorities of the international policy-lending environment, current mechanisms for ensuring consistency may become less relevant to ensuring sound policy recommendations. This section presents two complementary proposals for altering Bank and Fund operations to ensure the best possible policy advice and outcomes for its members. In some cases, these proposals could entail redundant operations between the Bank and the Fund and/or between one of the organizations and the borrowing government or expert groups. Redundant operations contrast the principles of division of labor and complementarity which have traditionally guided Bank-Fund cooperation. Yet in light of the recent evidence of policy errors, redundancy provides another avenue that, under specific situations, can both reduce the risk of errors and engage borrowing countries more effectively in the process of designing lending agreements. Both in terms of transferring technical capacity to borrowing governments and fostering greater ownership, redundancy represents a mechanism largely employed in the private sector to improve performance that has yet to be exploited by the Bretton Woods sisters. Such an approach is particularly geared towards reducing the risk of error in policy advice in cases where such errors would be extremely costly.

In other cases, like those where the organizations do not share expertise and where the risk of oversight (or rather failure to fully consider country-specific factors and input) is a more central factor to the success of lending operations, the Bank and the Fund should further strengthen their division of labor. This shift should emphasize the Bank's responsibility in policy areas related to development, particularly in relation to developing countries, with the Fund scaling back its operations.

74. How the two organizations should develop their role of signaling goes beyond the scope of this work; however as Birdsall and Kapur et al. (2005, 18) propose, the Bank should agree (together with the IMF and other donors and creditors) on the role it should play in signaling the adequacy of a country's "development" approach to complement the IMF's macroeconomic signaling.

V. CONCLUSION

The proposals presented in the previous section underscore some of the key issues framing the debate about reforming the Bretton Woods organizations. At the heart of the IMF reform debate is the very relevance of the organization to its members (Truman 2006a, 3). Similarly for its sister, Birdsall and Kapur et al. (2005, 2) point out that, "the Bank is under pressure, its legitimacy, credibility, its effectiveness, and its fundamental mission are all in question." Though calls for reform are numerous, specific proposals are less common. A key lesson drawn from the present study is that the relevance of the two organizations may be enhanced by addressing an age old issue, namely cooperation between the two. Despite efforts by the Bank and the Fund to cooperate and speak with one voice, we have seen the two sisters at times bickering, stepping on each other's toes, and giving each other the silent treatment. Their relationship remains complex.

The two organizations' typical approach to get along better has been to further delineate responsibilities between them. Yet this recipe too has had a long and mixed history. A treatment of known operational factors that influence how the organizations work internally, with their member countries and with one another, has been largely missing from the reform discussion. Therefore, the study that examines when and why the Bretton Woods sisters cooperate presented in this working paper attempts to contribute to the reform debate in a new way. Namely, it hopes to add value to the current discussion by regarding matters from a more strictly operational perspective, grounded in empirical evidence. The concluding sections, then, highlight some of the key questions emerging from the debate on Bank and Fund reform and draw from the findings of the study to discuss how the specific reform proposals presented in this working paper may serve to enhance the legitimacy and relevance of the Bretton Woods sisters.

Study Revisited

To summarize, the study presented in sections I and II, addresses the impression that despite the Bank's and the Fund's expressed desire to ensure consistent stances in their policy recommendations, they often, but not always, speak with one voice. Drawing on field research conducted in four countries, the study tests a range of variables in order to explain the circumstances under which the Bank and the Fund are consistent. Drawing on this evidence, the variation in Bank-Fund consistency has been explained with two variables, i.e., domain consensus and similarity in operational styles. The study finds that whenever the two organizations agreed on the boundaries of each other's operations (i.e., domain consensus) and whenever they operated in similar styles, the Bank and the Fund tended to speak with one voice. Conversely, the combination of domain dissent and different operational styles are associated with inconsistency in the stances the Bank and the Fund took vis-à-vis borrowing governments. With very few exceptions, all observations of the four country case studies can be explained by these variables. To the extent that both variables are endogenous to the Bank's and the Fund's management, it lies

within the power of the two organizations whether or not the operations of the two organizations are consistent. The findings are in line with recent attempts of the Bank and the Fund to understand how the two organizations work together, like the 2004 survey conducted among Bank and Fund staff and national authorities mentioned in the introduction (IMF and World Bank 2004). Yet the value-added of the present study is to go beyond anecdotal and potentially biased data to hone in on the drivers of consistency and inconsistency. The variables employed and analytical methodology provide a point of departure not only for future research on the relationship between the Bretton Woods sisters but may also on insights for studying the interaction and relationships between other international organizations.

Against the study's findings, the other sections provide an evaluation of the measures the Bank and the Fund have taken in recent years to ensure Bank-Fund cooperation. In many ways, these measures can be expected to be effective. For example, by introducing formal procedures of sharing information, they have significantly reduced levels of ambiguity and facilitated the exchange of information. Furthermore some measures have allowed the two organizations to coordinate their operations on a country-specific level helping overcome, to some degree, the differences in operational styles.

However, despite these advantages, significant challenges remain. For instance, the lack of internal staff incentives for enhanced communication is likely to undermine formal agreements and mechanisms of cooperation. Also, the changing environment of policy lending, particularly its emphasis on country specificity and ownership, has added new challenges not only for ensuring Bank-Fund consistency but also in terms of ensuring that the Bretton Woods organizations can deliver the best policy advice to borrowing governments. The Bank seems to have adapted better and faster to such requirements through an more decentralized and flexible operational model than the Fund. As a result, the Bank may be better positioned to lead in policy lending in all but a few matters related strictly to macroeconomic policy reforms.

An important implication emerging from the study is that Bank-Fund consistency may not always be desirable. Based on the theory of bounded rationality as well as on empirical evidence, the organizations run the risk of committing errors in their policy advice to borrowing countries. Such errors in the context of public crises have contributed to undermining the organizations' legitimacy. Therefore, the organizations need to address how to reduce the risk of errors and ensure that they can deliver the best policy advice possible. The proposals presented in section IV, namely the introduction of redundancy in some high-stake matters and greater strengthening of the Bank's role in others, both contribute to this aim and resonate well with trends in the current debate over reform. In particular, the proposals offered here are similar to trends that highlight a scaling back of Fund lending operations particularly with low-income members, outline a more prominent role of the Bank with ownership promotion and country-tailored lending arrangements, and advocate a greater role of both organizations in providing technical assistance and signalling through unfunded programs in their respective areas of expertise.

Merry Sisterhood?

Whether the future relationship between the Fund and the Bank is merry or guarded will depend largely on the path of reform measures taken within the two organizations. Much of the reform debate focuses on issues of governance to enhance their legitimacy. Yet the study and discussion presented in this working paper shows that operational changes, particularly regarding cooperation between the two, are also important to enhance the effectiveness and relevance of the organizations. In fact, the country research demonstrates that as the two organizations grow, it is within their own ability to determine how consistent they will be on the advice they give to others. The study also shows that, as in any relationship, agreeing with one another may not always provide the optimal outcome. Appropriately channelled disagreements between the Bank and the Fund, like those that come from redundant operations, may provide the two sisters with the opportunity to mature and learn from one another, while enhancing their individual effectiveness and therefore strengthening their legitimacy with member governments. Furthermore, mechanisms and incentives that incorporate the analysis of one organization into the operations of the other, as proposed by Radelet (2006, 406), may be just what the Bank and the Fund need to build a relationship based on healthy interdependence and mutual respect.

As the Bretton Woods sisters grow, any changes to their interactions with their members or with each other are likely to incur costs. However, the costs of not changing are high as well. In light of publicized policy mistakes and greater access to capital markets for member governments, the Bank and the Fund find themselves less sought out and less relevant. Yet the two sisters play an important role. As public organizations managing the global economy, they have the mandate to minimize externalities and correct market failures while promoting economic stability, more equitable growth, and a reduction in global poverty. Without adjusting their operations, including changing the way they interact and work together, the Bank and the Fund will continue to lose ground. This study hopes to contribute to this debate and stimulate further discussion and future empirical research on the relationship between the Bretton Woods sisters, so that they not only better their relationship but also strengthen themselves in the process.

APPENDIX A

Table A.1 Overview of variables and indicators

Variable	Acronym	Event	Code	Indicators of measurement/ guiding questions
Dependent variable				
Bank-Fund cooperation	C	Communication between IMF and World Bank falls short of ensuring the consistency of their operations.	0	Is the communication betweeen the two organizations sufficient to ensure the consistency of their operations?
		Sufficient communication between IMF and World Bank to ensure the consistency of their operations.	1	
Expanatory variables				
Structural similarity				
Similarity of operational styles	O	The operational styles are different.	0	1. Similarity in degree of staff turnover
		The operational styles are similar.	1	2. Similarity in degree of intraorganizational consistency
				3. Similarity in operational speed
Similarity of resident mission arrangements	M	The two organizations have different arrangements for most of the episode.	0	Dates when resident missions were opened or closed.
		The Bank and the Fund have the same arrangement for most of the episode.	1	
Personal friction between senior staffs	P	There is evidence that personal friction impeded the communication between the two organizations.	0	Do interviews provide evidence of personal friction?
		There is no evidence of personal friction impeding the communication between the two organizations.	1	
Domain consensus				
Domain consensus	D	There is domain dissent between the two organizations.	0	Is there any evidence of staff members of one organization disapproving of the boundaries of the other organization's activities?
		There is domain consensus between the two organizations.	1	
Formal agreement of cooperation on operational level	A	There is no agreement in place.	0	Was there a Policy Framework Paper (or a similar arrangement) in place in this episode?
		There is an agreement of place.	1	

(table continues next page)

Table A.1 Overview of variables and indicators *(continued)*

Variable	Acronym	Event	Code	Indicators of measurement/ guiding questions
Similarity in each organization's exposure to the recipient country	I	The country is of different operational importance to each organization.	0	Proxy variable: the ratio of the Bank's disbursements to the Fund's disbursements. In addition, evidence of analytic work, allocation of resources, and attention from senior management is taken into account.
		The country is of similar operational importance to each organization.	1	
Sense of economic crisis	S	The government, the IMF, and the World Bank have different views on policy priorities.	0	Was there an urgent need to take specific policy measures?
		The government, the IMF, and the World Bank agree on which measures are to be taken.	1	
Ambiguity of comparative advantage	U	There is no consensus on which organization would be best prepared to address the specific issue.	0	Was one organization perceived to have a comparative advantage?
		The IMF, World Bank, and the government agree on which organization is best prepared to address the specific issue.	1	
Negotiation dynamics				
Negotiating position of government	N	The country's negotiating position is weak.	0	1. Urgency of an agreement
		The country's negotiating position is strong.	1	2. Government's bargaining capacity
Technical capacity of government	T	The government is technically weak.	0	1. Evidence of the government presenting its own policy proposals
		The government is technically strong.	1	2. Significant participation of (former) staff members in the government's decision making
Similarity of each organization's relationship with borrowing government	R	The two organizations have a different relationship with the recipient country.	0	1. Compliance with the principles of diplomacy and technicality
		The two organizations have a similar relationship with the recipient country.	1	2. Personal views of government officials and staff members
Extent of disagreement between government and Bank/Fund	G	The views of the IMF and the World Bank are not contrary to the government's view.	0	Is there evidence of a general disagreement betweeen the government and the two Bretton Woods organizations?
		The views of both the IMF and the World Bank are contrary to the government's view.	1	

APPENDIX B
METHOD OF ANALYSIS: BOOLEAN ALGEBRA

The method of Boolean algebra allows us to isolate those conditions (or the combinations of conditions) which are necessary or sufficient to find the IMF and the World Bank cooperating (Wickham-Crowley 1991, 87). The method of Boolean algebra was chosen over other methods of analysis for several reasons which make it well-suited for the nature of this study. First, in contrast to standard statistical methods, Boolean algebra offers a high degree of specificity as it allows researchers to interpret the method's outcomes in the light of specific observations. Therefore, this method provides a framework to combine quantitative, narrative analysis with contextual narratives. Additionally sensitivity to combinations of different conditions rather than having different variables compete with each other distinguishes this method from standard statistical methods.[1] As specific variables are allowed to remain inherently dependent on the presence or absence of others for their effects, this method allows conditions to remain contextualized. Third this method allows one to transform a high level of complexity encountered in the initial stage of the research process into parsimonious explanations of specific outcomes (Ragin 1987, 122).

Before describing the specific steps of the analysis, it is important to highlight a key distinction between two methods of comparative analysis on which Boolean algebra is based: the indirect method of difference and the method of agreement. In the former method, one considers observations which have different final outcomes but are otherwise quite similar in terms of other observed conditions. One interprets those differing conditions as the drivers of the two observations' different outcomes. In the latter method, observations showing similar outcomes but multiple differing conditions are considered. Those conditions which are similar between the observations are inferred to be the cause of their similar outcomes (Wickham-Crowley 1991, 85–86).[2]

Based on this approach, the analysis using Boolean algebra starts by identifying the presence or absence of the outcome that is to be studied (i.e., consistent policy stances of the Bank and Fund) as well as the presence or absence of the conditions hypothesized to explain this outcome (i.e., domain consensus, ambiguous comparative advantage between the two organizations, etc.). Both the set of conditions and the outcome are expressed as binary variables, which is fitting given the highly qualitative nature of the variables this study employs. Using a truth table, the combinations of variables associated with the presence and the absence of the outcome in question are identified.

Applying simple algebraic rules, this analysis follows a series of steps. In the first step, the combinations (called Boolean expressions) that are associated with the presence of the dependent variable are listed. These lists are then simplified according to a set of rules which help reduce the complexity

1. However, statistical methods can test for combinations of variables by including interaction terms, a technique that entails a significant loss of degrees of freedom.

2. This distinction was first made by John Stuart Mill and so is referred to as Millian logic (Wickham-Crowley 1991, 85–86). The Millian logic has been translated by Charles Ragin (1987) into Boolean algebra.

of different combinations of variables.[3] The analysis generates a final statement which identifies the conditions under which the positive outcome of the dependent variable has been found. Once the conditions of the specific outcome are defined one can derive the combinations of conditions of the absent outcome.

One important methodological question relates to the way the variables have been measured on the basis of qualitative information for the study presented in this working paper. The highly qualitative nature of the information and the diversity of phenomena across observations do not allow us to measure the variables across countries and episodes on the basis of strictly defined criteria as meanings of specific phenomena vary in different contexts (Blalock 1982, 66). Therefore, the value assigned to the episode or the issue in question is a product of a combination of factual information and judgment.[4]

There are some potential problems associated with employing Boolean algebra as a method of analysis, but Ragin has proposed specific techniques to deal with these problems. For example, the same combinations of explanatory variables may be associated with different values of the outcome that is to be explained. One strategy to deal with this problem consists of examining the troublesome cases in greater detail and attempting to identify omitted causal variables (Ragin 1987, 113–21). Another possible problem relates to the high number of combinations (in this case for cooperation and noncooperation) given the number of explanatory variables. For instance, there are not less than 512 possible combinations for cooperation and noncooperation given nine explanatory variables defined for each episode. This number is far higher than the numbers of different episodes we can expect to derive from the four country cases. Ragin (1987) proposes four specific ways to deal with this: First variables showing high or perfect correlation can be pooled without significant loss of information. Second variables showing no or very little variation can be dropped. Third, simplifying assumptions can account for the combinations for which no observations have been available (Ragin 1987, 106). Fourth a variable can be created to serve as a simple presence/absence dichotomy indicating whether or not a certain combination of causes exists. Through Boolean algebra, this variable can be transformed in a statement of combinations of variables which do not exist and used to simplify the analysis (Ragin 1987, 109).

3. For example, one of these rules says that if two Boolean expressions differ in only one causal condition yet produce the same outcome, then the causal condition that distinguishes the two expressions can be considered irrelevant. Removing this condition then yields a simpler expression (Ragin 1987, 93).

4. To ensure that measurement of each of the variables is verifiable the country narratives presented in Fabricius (1999) contain the factual information as well as the interpretation that has led variables to be coded in a specific way.

APPENDIX C
EXAMPLE OF CODING THE COUNTRY EVIDENCE: PAKISTANI EPISODE OF BUREAUCRATIC RULE (1980–83)

Throughout this episode, Pakistan was under the military dictatorship of General Zia who came to power after the political coup he had launched in 1977.[5] The Soviet invasion of Afghanistan in December 1979 and the Islamic revolution in Iran strengthened the strategic importance of Pakistan as a pro-Western Islamic country and increased the willingness of Western donors to provide aid.

In the face of economic imbalances, triggered largely by the second oil shock in 1979 and ensuing inflation, the government and IMF staff started discussions on a three-year economic program. In November 1980, the Fund's Board approved a program under the Extended Fund Facility (EFF) in the amount of SDR 1268, equivalent to 445 percent of Pakistan's quota. This loan was to be disbursed in three tranches. While this program addressed a broad agenda of policy measures on the demand- and the supply-side of the economy, the government was primarily interested in balance of payments support.

As for the World Bank's operations, in 1982, its Board approved a Structural Adjustment Loan (SAL). Following two years of preparations, this loan was based on various sectoral studies. This loan spelled out measures in development planning as well as various measures in agricultural/water sector policies, energy sector policies, and industrial sector policies. In all three sectors, the loan aimed at reducing price distortions. The loan was structured to be disbursed in two tranches with the second tranche scheduled for disbursement in September 1983.

As for the physical setting of their operations, the Bank and the Fund operated under very different conditions. Whereas the Fund usually dealt with the Karachi-based State Bank of Pakistan, the Bank often dealt with the Planning Commission and various line ministries. Both organizations had had long-standing relationships with the Ministry of Finance. Among the government's core agencies, the Fund has often enjoyed better access to both senior officials and statistical data, which had often been envied by the Bank's staff. Since the 1960s the Bank had a (fairly small) resident mission in Islamabad. It was only in 1991 that the Fund was permitted to open a resident mission in Islamabad. Therefore, the variable called similarity of resident mission arrangement" is coded as zero, as shown in table 4.

One of the variables hypothesized to affect Bank-Fund cooperation is the similarity in the borrowing country's operational importance to each of the two organizations. The borrowing country's operational importance is approximated by the ratio of the two organizations' disbursements to each other. Both organizations made disbursements in each year of this episode.Whereas the Fund disbursed about three times the amount the Bank disbursed, both organizations had ongoing lending operations in the country. This observation allows us to conclude that Pakistan was of similar operational importance to both organizations. Therefore, as shown in table 4, the variable called similarity of country's operational importance to each organization is coded as one.

5. Abridged from chapter 5, section 2 of Fabricius (1999, 321–41).

Throughout this episode, the Bank and the Fund adhered to some division of labor: Whereas the Fund addressed macroeconomic issues, the Bank confined itself to sectoral matters. On macroeconomic issues, the Bank explicitly deferred to the Fund. These issues included the definition and monitoring of fiscal ceilings, monetary policy, exchange rate policy, measures of export promotion (which included flexible exchange rate policies), and the government's program of import liberalization . The Bank's refrain from addressing macroeconomic issues not only corresponded to its sectoral expertise, but also resulted from the Bank's acquiescence to the Pakistani request to focus on sectoral issues.

Despite this general division of labor, some policy issues were addressed by both the Bank and the Fund. In some areas, the two organizations focused on the same aspects. In the area of privatization, for example, both the Fund and the Bank urged the government to prepare a list of the industrial units the governments was to divest. In other areas, each of the two organizations concentrated on different aspects. In the area of fiscal policy, for example, the Fund defined the program targets and addressed aspects related to the tax system, whereas the Bank, by contrast, focused on the expenditure side. As for fertilizers, the Fund focused on reducing the demand by increasing the prices of fertilizers, whereas the Bank advocated measures to increase supply.

For this episode, there is no evidence of any inconsistency between the operations of the Bank and the Fund. According to interviewees, specific measures' importance differed to the two organizations. Whereas the Bank emphasized sectoral issues, these issues seemed to be of marginal importance to the Fund. According to one government official, slippage on structural issues alone would not have led the Fund to suspend its program. Given the consistency between the Bank and the Fund, the variable called cooperation is coded as one, as shown in table 4.

The consistency in the Bank's and the Fund's operations can be explained by various modes of communication between the Bank and the Fund staffs. The staffs of the two organizations seemed to share information and seek agreement on issues that interested both organizations. However, there is no evidence of any regular patterns of documents being shared on a consistent basis. Moreover, there was no agreement in place with respect to which the staffs of the two organizations should have cooperated. Therefore, the variable called formal agreement of cooperation on the operational level is coded as zero. Moreover, there is no evidence of any personal friction between the Bank's and the Fund's staffs. Therefore, the variable called personal friction between senior staffs is coded as one. The findings of this episode are similar to the findings for every other episode of Pakistan.

According to interviewees, this episode witnessed neither joint nor augmented missions. Furthermore, there were no trilateral meetings. Despite the lack of any visible regular patterns of communication, one senior government official pointed out that "it seemed that they [the staffs of the Bank and the Fund] were coordinating all the time."

What may explain the communication between the Bank and the Fund is the similarity in their operational styles measured in terms of three indicators, i.e., the similarity of staff turnover, similarity of intraorganizational consistency, and similar operational speed. There is no evidence of different operational styles for any of these indicators. Therefore, the corresponding variable is coded as one.

The government's negotiating position is measured by two factors, i.e., the government's urgency of reaching an agreement and the government's bargaining capacity. Two factors determining the borrowing government's urgency of an agreement is the situation of the economy and the government's political situation. As for the situation of the economy, high levels of export earnings and remittances left the government in a comfortable position vis-à-vis the Bretton Woods organizations. Concerning the urgency of an agreement, the government's position also benefited from the increasing volume of aid provided by Western governments. As these capital inflows were independent from the government's compliance with the IMF program, they left the government in a comfortable position vis-à-vis the Bretton Woods organizations.

Concerning its political situation, the government enjoyed a high level of political autonomy during the first two years of the program period. Given the repressive nature of the political system, the government had a high level of discretion. One senior government official pointed out that during this episode, the government could issue presidential orders and implement laws within one day. However, characterizing the government's position as being unconstrained would be somewhat misleading. Despite the absence of any parliamentary opposition, the government's room for maneuver was constrained by the need to safeguard the loyalty of strong vested interests. Thanks to the comfortable external position of the economy, compliance with the Fund's and the Bank's programs became a second priority. There was no urgent need for a program with the Bank and the Fund. Hence, the first indicator suggests that the government's negotiating position was strong.

The government's negotiating position was strong not only because of its independence from subsequent disbursements from the Bretton Woods organizations, but also because of its bargaining capacity. Under the strong leadership of Finance Minister Ghulam Ishaq Khan, the government had a strong capacity to develop its own views.

The government not only developed its own view, but also pursued its interests effectively in the course of program negotiations. By various accounts, the government's negotiations with the Bank and the Fund followed clearly defined procedures. Thanks to their seniority, various government officials had considerable familiarity with the Fund and the Bank. Government officials usually supported their arguments with economic data, data that were sometimes more detailed than the data available to the Fund. By several accounts, the government's high level of preparedness was one of the reasons why it was capable of effectively pursuing its interests in negotiations with the Fund and the Bank. Furthermore, the government's bargaining capacity benefited from the high degree of autonomy the Ministry of Finance enjoyed vis-à-vis the political leadership. Not only domestically, but also internationally did the minister of finance enjoy access to key decision makers. As the minister of finance served as chairman of the Bank-Fund Development Committee, he was highly regarded and quite familiar with the procedures of the two Bretton Woods organizations. In particular, the finance minister's relationship with the Fund's Managing Director has often been characterized as excellent.What is important in the context of this study is that the minister of finance was very skillful in using his standing—both domestically and internationally—to broaden the government's room for maneuver vis-à-vis the Bank and the Fund. For

instance, by several accounts, the Fund's Managing Director repeatedly softened the conditions the Fund's staff had negotiated with the government in response to diplomatic initiatives by the finance minister. What this suggests is that by both indicators, the government's negotiating position was strong. Therefore, the variable called negotiating position is coded as one.

As for the government's relationship with the two Bretton Woods organizations, public statements suggest that the government's official relationship with both the Bank and the Fund was reasonably good. There is no evidence of any violation of the principles of diplomacy and technicality. The government referred to its program with the Fund as corresponding to the government's own policy priorities. Government officials pointed out that, in general, the attitude of the Bank and the Fund vis-à-vis Pakistan was "always sympathetic" in the course of this episode.

However, further evidence suggests that the government's relationship with the Fund was more adversarial than its relationship with the Bank. To a large part, this can be attributed to disagreements related to the Fund's conditionality, in particular, with respect to the government's fiscal policy. What was particularly contentious was the Fund's requirement that the government introduce an effective sales tax. By various accounts, the government and the staff of the Fund failed to reconcile their views on the sales tax: The Fund did not accept the government's argument that due to weak institutions, taxes like the sales tax could not be levied in Pakistan. Further controversies resulted from the government's reluctance to cut subsidies to fertilizers and wheat.

Against this background, it is not surprising that the government's relationship with the Fund's staff became quite confrontational. Government officials remembered Fund officials as "very strict." Discussions have been described as "very hard" and the extent of arguing "very strong." The contentious character of this relationship may account for the government's attempt to tightly control the Fund's access to its ministries: When the Fund wanted to open a resident mission in Islamabad, the government declined.

By many accounts, the government's relationship with the World Bank was more relaxed than was its relationship with the Fund. One senior official characterized the government's relationship with the Bank as "more outgoing, open, and friendly" than its relationship with the Fund. Many government officials described their relationship with the staff of the Bank's resident mission as "very good." Government officials also pointed out that the government usually had more room to get its way in negotiations with the Bank than with the Fund. They attributed this not only to the Bank's interest in continuing its lending operations, but also to what they described as the lower degree of preparedness of Bank missions in comparison with Fund missions. One official pointed out that "sometimes, people in the Bank who came on missions had hardly done their homework." What the evidence suggests is that the government's relationship with the Bank was significantly less adversarial than its relationship with the Fund. The corresponding variable is coded as zero.

Based on the interpretation above, table 4 presents the variables as they have been measured for the episode of bureaucratic rule. As shown in the column entitled "C," the Bank and the Fund have been found to cooperate in this episode. Five explanatory variables show the value which has been hypothesized

to be conducive to Bank-Fund cooperation. The episode of bureaucratic rule suggests that the cooperation between the Bank and the Fund may be explained by the absence of personal friction (P), the similarity in Pakistan's operational importance to each of the two organizations (I), similar operational styles (O), the absence of domain dissent (D), or the government's strong negotiating position (N).

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