The IMF, the World Bank, and the Inter-Play between Power and Efficiency in the Politics of Publicness, Formality, and Scale

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October 31, 2007

Paper submitted for consideration for the conference on "The Political Economy of International Organizations."

The IMF and World Bank today inhabit a quite different environment than in the past. As a 2006 report by the IMF's Independent Evaluation Office noted "When the IMF was established, it was in some respects a monopoly or near-monopoly supplier of analysis and advice on international financial and monetary issues. This is no longer the case." Today the IMF and World Bank compete with alternatives that differ from these Bretton Woods institutions on three dimensions. The first dimension is publicness, which includes private sector actors and institutions that provide resources or rules that otherwise might be provided by the IMF or World Bank, including commercial banks, institutional investors, credit rating institutions, and the International Accounting Standards Board. The second dimension is formality, which includes the shift of responsibilities that might otherwise have been centered in the IMF or World Bank to more informal groupings such as the G-7/8, the G-20, or the Basel Committee on Banking Supervision and other such committees based at the Bank for International Settlements. The third dimension is scale, which includes the growth of regional alternatives, competition from the Organization for Economic Cooperation and Development, and national alternatives such as the accumulation of massive reserves as insurance against monetary instability. Interacting with this more complex environment is a major challenge that the IMF and World Bank have acknowledged but not yet adequately addressed.[1]

Why should we care about the competition between the Bretton Woods institutions (BWIs) and other international institutions? Most discussions of reform of the BWIs have focused on their governance or their programs rather than that their relationships to other institutions. To only do this is a mistake. Many of the functions carried out by the BWIs could be carried out by a growing number of other institutions, as discussed further below, and therefore their fate will be determined increasingly not just by whether the BWIs are effective relative to having no international institutions, or relative to their own past performance, but also by whether they can carry out their functions more effectively than other international institutions. There are numerous examples of states making calculated choices about which international institution to use to pursue their interests, sometimes labeled "forum-shopping".[2] As well, an

[1] I began exploring this theme in a working paper issued by the Center on International Governance Innovation in 2007 (Porter, 2007). The present paper draws on some of the ideas in that working paper but goes well beyond them.
[2] Well-known examples include shifts in intellectual property rulemaking from the World Intellectual Property Organization to the World Trade Organization, or the use by the US of the NAFTA and the FTAA as an alternative to the WTO.

institution that has specialized in one way of addressing a problem may find that environmental technological or economic factors have rendered that method more or less cost-effective than methods in which other institutions have specialized—or the problem itself may have disappeared—thus changing that institution's ability to compete for the attention and support of states and other actors. In short, whether one emphasizes the desire of states to exercise more choices about the institutional forms and forums in which they collaborate (the demand for institutional diversity), or the tendency of such institutions to emerge and compete with one another (the supply of institutional diversity) international institutions are operating in an increasingly competitive market for their services. In order to know which institutions can and should win out, or what changes an institution should make to be more successful, it is important to analyze institutions in relationship to one another and not just independently or in relationship to an abstract ideal. Moreover, examining all the institutions that carry out overlapping functions in any international issue area will provide a better picture of the changes that area is experiencing than focusing on one institution alone.

This paper takes the following approach to developing this analysis. In order to capture very broad changes occurring in the competitive position of the IMF and World Bank it is useful to compare the "market[3] for international financial[4] institutions" in an earlier historical period with this market today. This brings out the more important changes that are not visible on a year-to-year basis. Moreover this "macro-historical" temporal scale matches the pace of fundamental change in international institutions—the cost of making fundamental institutional changes is high, and it usually takes many years for an institution to be created or wound down. International institutions like the IMF and World Bank will be treated as all having two distinctive institutional characteristics: functions and forms. Institutional forms vary on the three dimensions set out above, scale, formality and publicness. The competitive performance of institutional forms will be shaped by their efficiency in carrying out particular functions that are constituted by the interaction of institutions with their environments, and by the match of these forms with the distribution of power of the major actors that the institutions may serve.

The paper carries out this task in three steps. It starts by further conceptualizing this approach to assessing international institutions. It then sets out the historical comparison. The third section applies the approach to the task of explaining the changes that have occurred in the market for institutions in which the IMF and World Bank are operating, highlighting the policy implications that result. It should be emphasized that with changes of this scale and numbers of actors precise measurement or detailed historical accounts are not possible. However it is hoped that the benefits that come from highlighting very broad and significant trends will outweigh this methodological cost.

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[3] The notion of a market for institutions is well established in the economics of institutions. However even when linked with power-related approaches as it is in this paper, this notion tends to obscure the socially and discursively constructed quality of markets. Enclosing this phrase in quote marks aims to signal these problems with it, and this applies throughout the paper even where the quote marks are not used.

[4] In this paper "financial" refers to both monetary and financial matters except where they are explicitly distinguished.

Conceptualizing the competition between institutions

While recent scholarship has provided some of the elements needed to operationalize the approach introduced above and apply it to analyzing the BWIs, there is some further conceptual development needed. That is the task of this section.

The study of international institutions the past twenty years has seen an increasing interest in approaches that identify disaggregated and generalizable functions of international institutions that can explain why self-interested states might choose to construct and comply with them. Keohane (1984) was influential early on in suggesting that states could anticipate the reduction in transactions costs in creating international institutions, for instance through scale economies in knowledge production or cost effectiveness of dealing with opportunism and mistrust. The major accomplishment of this earlier work was to explain how self-interested states might agree to collaborate, but in identifying generalizable functions it also set the stage for improved comparative analysis of institutions. More recently this comparative impulse, and the interest in identifying disaggregated and generalizable aspects of organizational form that could then be related to functions has been pushed further. For instance "legalization" was further disaggregated into obligation, precision, and delegation, and the functionality (or cost-effectiveness) of these were analyzed in relationship to their variation across existing international institutions (Goldstein et al, 2000). In a similar vein, "publicness", "delegation", and "inclusiveness" have been identified (Koenig-Archibugi and Zürn, 2006) as key institutional characteristics that vary in their capacity to address certain functional problems such as externalities.[5] The three dimensions of form of scale, formality, and publicness have been chosen as the focus in this paper because, as well be discussed further below, the high score on all three of the IMF and World Bank relative to the institutions that have arisen to compete with them stands out, suggesting that these dimensions are especially relevant.[6]

Studies of the role of interests in international institutions have tended to suggest that either efficiency or power is important in explaining why particular functions and forms arise.[7] Efficiency explanations emphasize the importance of a match of institutional form to functional problems that arise. These problems can identified as generic tasks, such as the need of a state to establish credibility; as more specific tasks, such as the need to clarify lender of last resort responsibilities in financial markets; or in the form of game structures, such as prisoner's dilemma or Battle of the Sexes. There will be a tendency for the most efficient institutional form to win out either because states calculate that it is the most efficient, or because more efficient institutions outperform inefficient ones, and thereby attract state support.

Power explanations suggest that forms match power distributions. Hegemonic stability theory, for instance, suggested that institutions arise when powerful states are willing to devote resources to them (Lake, 1993). Power explanations can be connected to each of the three dimensions of organizational form identified above. With regard to scale, the literature on the

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[5] For this type of treatment of a larger number of functions see Koremos et al, 2001.

[6] Inclusiveness is an especially important dimension of organizational form that is not included here because its variation across the institutions examined is not as great and due to the difficulty of addressing it adequately in addition to the other dimensions in a paper of this length.

[7] For extensive discussion of power and efficiency approaches see Hasenclever at al, 1997 (where efficiency approaches are labeled "interest-based"). This paper is not intending to suggest that alternative approaches, including those that Hasenclever et al label "cognitivist" and others such as sociological institutionalism are not valuable. A consideration of the very important contributions of such approaches goes beyond the scope of this paper.

politics of scale (Jessop, 2005) or forum shopping (see Braithwaite and Drahos, 2000) suggests that actors choose the scale and location that best permits them to achieve their goals in competition with other actors. With regard to publicness, it has often been suggested that an increase in the prominence of the private-sector in global governance is due to the growing power of transnational corporations, expressed directly or through the states in which they are headquartered. With regard to formality, it is likely that formal rules will better match larger-scale structures of power, whether these are more equal or not, because formal arrangements better constrain unilateral state initiatives that could disrupt those structures of power. Small numbers of powerful actors, in contrast, are likely to favor more informal coordination.

Power and efficiency explanations are not mutually exclusive: any particular institution can reflect a mix of these, with one complementing or undermining the other. Moreover the problems that are central to the functionalist efficiency-oriented approach can involve the difficulty of solving collective action problems under conditions of power asymmetries. One may distinguish functionalist efficiency problems by either the degree to which these are more linked to technical problems or to mutually beneficial solutions of collective action problems than to the distribution of power, but it in practice these are never fully independent of the exercise of power. Nevertheless power and efficiency have often been distinguished from one another and thus it is useful to keep them separate in the examination of the markets for institutions that follows, thereby allowing us to better assess their individual contributions.

Having further specified the relationships between form, function, efficiency, and power, it is now useful to examine the broad changes that have occurred in the market for institutions in which the IMF and World Bank operate.

Then and Now: Changes in the market for institutions like the IMF and World Bank

This section sets out the very broad changes that have occurred from the period before 1973, under the Bretton Woods system to the period since the East Asian financial crisis of 1997.[8] The goal is to compare the institutions that carry out the financial governance-related functions that the IMF or World Bank might be expected to be able to carry out. Without the type of theoretical model set out above there is no reason to expect that the IMF and World Bank would not be able to carry out virtually any type of financial governance function. For instance in the immediate post-War period the OECD arranged multilateral clearance and settlement of monetary balances through the European Payments Union, a function that is now carried out by private foreign exchange markets, but could conceivably have been carried out then or now by either the IMF or World Bank. Of course all institutions have particular institutional histories which in some approaches can usefully explain why functions don't move easily from one institution to another. In the analysis that follows this institutional inertia or momentum will be treated as a cost of switching institutions that accounts for the slow pace of institutional change.[9]

The Bretton Woods Period

[8] Information on the many institutions that will be discussed is available through their websites. Many are discussed in Porter (2005). For the OECD's role see Porter (2007), available upon request from the author.
[9] In the analysis of firms "barriers to entry" and "barriers to exit" have been used to refer to this institutional inertia, as in Michael Porter (1985). Michael Porter's analysis of firms has a certain affinity to the competitive analysis developed in this paper, but differences in firms and international institutions do not make his analysis sufficiently applicable to be integrated into this paper's.

During the period between World War II and the end of the Bretton Woods monetary system, in 1973, the multilateral institutions involved in financial governance were all public, mostly formal, and varied in their scale. The following comprise all the significant multilateral institutions concerned with financial governance in this period:

1. The IMF was public, formal, and universal in scale. Its main functions were to stabilize exchange rates by lending money provided by states to cover short-term balance of payments deficits, to monitor and endorse states' commitments to the exchange-rate system and to repaying IMF loans, and to produce information about international monetary matters. The Special Drawing Rights (SDR), the product of a 1969 initiative to create international money, was relatively insignificant.
2. The World Bank was also public, formal, and universal in scale. Private sector involvement was greater than in the IMF however since the World Bank's financing capacity included the issuing of bonds in financial markets. As well, the International Finance Corporation, a member of the World Bank group that was created in 1956, financed and provided advice to private sector projects and the International Centre for Settlement of Investment Disputes, created in 1966, was designed to resolve investment disputes between governments and private foreign investors. The World Bank Group's primary function was to provide financing for development, in part by intermediating between private investors and borrowers, substituting its own reputation for the reputation of states, and in part by mobilizing public sector financial resources. The production of development knowledge and advice has always been an important function of the World Bank as well.
3. The Bank for International Settlements was public, mostly formal, in principle not restricted to any particular scale, but limited in practice in this historical period to industrialized countries.[10] As a bank for central bankers, its primary function during this period was to help its member central banks to manage monetary imbalances, for instance through swaps of currency, or through the technical services it provided to the European Payments Union, mentioned above. Although the BIS structure overall was very formal an important element of informality was present in the secret high level meetings of central bankers. These facilitated the trust-building and knowledge-sharing functions that in turn supported cooperative efforts to deal with imbalances. The BIS-based Gold Pool, created in 1961, was a relatively informal mechanism for cooperating in the use of gold to address imbalances. During the 1960s the BIS began taking responsibility for monitoring and producing data on the growth of Euromarkets, financial instruments denominated in currencies other than the jurisdiction in which they were sold. The Group of Ten (G10), a relatively informal group of leading central bank governors and finance ministers launched in 1962, was initiated at the OECD and initially focused on the management of the General Arrangements to Borrow at the IMF, but ultimately became most closely associated with the BIS, whose Board of Directors membership corresponded to the G10 central bank membership.

[10] For a remarkably comprehensive history of the BIS during the Bretton Woods period, including developments discussed in this paragraph see Toniolo (2005).

4. The Organization for Economic Cooperation and Development was public, relatively formal, and limited in scale to the industrialized countries. Aside from running the European Payments Union in its earlier incarnation as the Organization for European Economic Cooperation (OEEC) the OECD's primary function in global finance was to help manage macroeconomic and payments imbalances through its Working Party 3, which brought together deputy-level representatives from central banks and finance ministries; to promote commitments on capital liberalization through its 1961 Code of Liberalisation of Capital Movements; and to cooperate on insurance matters. Like the BIS the OECD's general organization was formal but it also included quite informal and fluid committees and working groups. Its function was primarily to facilitate the production and sharing of knowledge, although its pioneering peer review practices, including in the area of capital liberalization, served as a mechanism to promote compliance with commitments and advice. The OECD's emphasis on capital liberalization, like the IFC at the World Bank, gave it a connection to private financial markets.
5. The three regional development banks, in Asia, Africa and the Americas, were public, formal, and regional in scale. While they varied in their governance and performance, all three correspond to the World Bank in their functions, but on a regional level (Culpeper, 1996). The Caribbean Development Bank (CDB) and the Andean Development Corporation (CAF) were established in 1970, the Organization of Islamic Conference-related Islamic Development Bank (IDB) was agreed in 1973 and together with several Arab multilateral aid organizations that were created between 1971 and 1981, established a Coordination Group which over time would disburse a large amount of aid (www.arabaid.org). There were a number of other monetary cooperation initiatives but almost all were relatively insignificant, at least during this period, or entirely unsuccessful. CEMLA, the regional association of Latin American and Caribbean central banks was created in 1952 as a relatively formal mechanism for sharing knowledge, and the South East Asian Central Banks (SEACEN) was created in 1966 and the Central American Bank for Economic Integration (CABEI) in 1960 for similar reasons (Asian Development Bank and Boao Forum for Asian, 2007: p. 33; CABEI website), but neither was especially active in this period. The East Africa Currency Board, created by the British colonial office in 1919, collapsed in 1966; the Rand Monetary Area, the roots of which stretch back to the beginning of the 20th century was only formalized in 1974[11], and the CFA Franc, created in 1948 was quite successful in stabilizing currencies. A 1945 plan by 22 Arab countries to launch a united Arab Dinnar never succeeded (On these initiatives see Chang, 2000; Kamar and Bakardzhieva, 2006; Nnanna, 2006:7; Ukpong, Van Zyl).

Overall, then, multilateral financial governance in the Bretton Woods period was characterized by relatively formal public institutions that were either universal (the World Bank and IMF) or with scales differentiated on overlapping developed/underdeveloped and regional bases. Some elements of informality were integrated into the operations of the BIS and OECD, and some orientation to the private sector was evident at the World Bank and the OECD.

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[11] South Africa, Swaziland, Lesotho, renamed the Common Monetary Area in 1986 and the Multilateral Monetary Agreement with the addition of Namibia in 1992.

Since 1997

In the period since 1997 there have been very significant changes in the mix of multilateral institutions concerned with financial governance as compared to the Bretton Woods period. These changes have occurred in the institutions that were important in the previous period, but many new institutions have been added. I start with changes to older institutions before discussing newer institutions.

All of the institutions discussed above continue to play important roles but there have been some significant changes in these roles. The IMF became heavily involved in lending to developing countries following the debt crisis of the 1980s, and this was accompanied by strengthened conditionality processes. Since its perceived shortcomings in the 1997 financial crises in Asia and Russia the IMF has been experienced a rapid loss of borrowers. The IMF has sought to counter criticisms of its overemphasis on macroeconomic issues by incorporating a stronger emphasis on poverty reduction, through the PRSP process. Both the IMF and the World Bank also became more involved in financial regulation through the Reports on Observance of Standards and Codes and the Financial Sector Assessment Program, and by including financial regulation issues in other processes. The World Bank moved more quickly than the IMF to create linkages with civil society and to diversify the types of expertise it used (O'Brien et al, 2000). The BIS and OECD moved to strengthen linkages by adding new members, including from the South, or by involving non-members in collaborative networks.[12] The OECD established new projects on corporate governance, public debt management, private pensions, and other issues that could generally be characterized as establishing best practice guidelines at the interface between the private financial system and other institutions or rules. One additional regional development bank—the European Bank for Reconstruction and Development—was established in 1991 with a greater private-sector lending orientation than had characterized the other regional development banks in the earlier period. The European Union has grown to take a much larger role in monetary and financial affairs, including through its central bank and its efforts to create common standards for financial regulation. The International Organization of Securities Commissions, a formal universal public institution which aims to foster collaboration and establish best practices among securities regulators was created.

The previous paragraph summarized the key changes that have occurred in formal public and relatively large-scale institutions, but it is striking that all the other significant changes that

[12] Non-OECD members of the BIS include Algeria, Argentina, Bosnia and Herzegovina, Brazil, Bulgaria, Chile, China, Croatia, Estonia, Hong Kong SAR, India, Indonesia, Israel, Latvia, Lithuania, the Republic of Macedonia, Malaysia, the Philippines, Romania, Russia, Saudi Arabia, Singapore, Slovenia, South Africa, and Thailand. The BIS has also opened offices in Hong Kong and Mexico City. The OECD has noted "Altogether there are about 50 non-members engaged in at least one OECD working party, scheme or programme…The OECD has working relationships with non-members in Africa, Asia, Europe, Latin America and the Middle East, giving it a global reach." (OECD dynamic webpage, "OECD Global Relations" accessed October 31, 2007, at www.oecd.org). Its members now include the Czech Republic, Hungary, Korea, Mexico, Poland, the Slovak Republic,, and Turkey. At its 2007 Summit the G8 asked the OECD to act as a platform for dialogue between the G8 and Brazil, China, India, Mexico and South Africa. Also in spring 2007 the OECD agreed to ask Chile, Estonia, Israel, Russia and Slovenia to open discussions for membership and offered enhanced engagement, with a view to possible membership, to Brazil, China, India, Indonesia and South Africa (OECD dynamic webpage "OECD Invites Five Countries to Membership Talks, offers enhanced engagement to other big players" accessed October 31, 2007, at www.oecd.org).

have occurred between the two historical periods have involved the growth of other institutions that differ in their degree of formality, publicness and/or scale.

Informal public sector institutions have proliferated. The most senior of these are the G7/G8 which has met at the leaders' level since the mid 1970s, and which added an institutionalized meeting at the finance ministers' level in 1986, and the G20, created in 1999. The G7/G8 has addressed a series of monetary and financial governance issues, including macroeconomic and payments imbalances, money laundering, and financial stability. It created the Financial Stability Forum in 1999. The G20's informality is modeled on the G7/G8, but it includes systemically significant emerging market countries as well, and it meets only on the central bank governor/finance ministers' level not the leaders' level.

The informal public sector institutions also include a series of groupings located at the Bank for International Settlements: the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the Committee on Payments and Settlement Systems, the Financial Stability Forum, and the Committee on the Global Financial System. These all involve regular but quite informal interaction among public officials with responsibility for financial regulation or stability, and they produce agreement on best practices. The Financial Action Task Force, concerned with money laundering and terrorist financing, is very similar in organization, but it is housed at the OECD as is the International Organization of Pension Supervisors. These groupings vary in their scale, with the IAIS and the IOPS having a more universal membership[13], and the others having a more restricted membership with ad hoc relations with other states and regional groupings. The BCBS interacts with about a dozen similarly informal but regional groupings of central bank officials or bank regulators, almost none of which existed in the earlier period.[14] The Chiang Mai Initiative in which ten Asian nations agreed in 2000 to swap currencies to help manage financial crises has a similar informal character (Park, 2004), as does the emerging investment regime that is based on hundreds of bilateral investment treaties. With the exception of the IAIS, which involves private sector actors prominently in annual meetings, all these groupings are public sector, although most have some mechanism of consultation with the private sector.

The degree of reliance on private-sector institutions is also strikingly higher in the later period. Many of the stabilization functions that were carried out by formal public institutions have been shifted to markets, for instance with the purchase by firms of derivatives to offset exchange rate risks. Financing for development has also displayed a significant shift from public sector sources to private financial markets. Private credit-rating agencies carry out similar functions to the World Bank in addressing monitoring and reputational issues associated with information problems between sovereign borrowers and investors (Sinclair, 2005). A proliferation of private-sector institutions provide the type of analysis that in the earlier period

[13] The IAIS has representatives from nearly 140 countries, constituting 97% of the world's insurance premiums. It has more than 120 observers, which include non-governmental actors. Approximately 50 countries and territories are represented in IOPS.

[14] These regional groups include for instance the Association of Financial Supervisors of Pacific Countries; the Association of Supervisors of Banks of the Americas, the Caribbean Group of Banking Supervisors, the Committtee of Bank Supervisors of West and Central Africa, the EMEAP Working Group on Banking Supervision, the Islamic Financial Services Board, the Offshore Group of Banking Supervisors, and others. For a fuller list and a description of their activities see Basel Committee, 2006. The Basel Committee also has institutionalized dialogue with non-members through its International Liaison Group which includes Argentina, Australia, Brazil, Chile, China, the Czech Republic, Hong Kong, India, Korea, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, and the West African Monetary Union.

would have been produced exclusively by formal public multilateral institutions, including firms producing information and analysis, such as PriceWaterhouseCoopers, Bloomberg, or Reuters, or private think tanks, like the G30, a high level group of individuals drawn from government and business that has taken governance initiatives on matters like establishing standards for clearance and settlement in securities markets, or the Institute of International Finance, the association of international banks that helps monitor sovereign risks and takes initiatives on regulatory and policy issues. The most formal private sector financial governance body is the International Accounting Standards Board, which sets international accounting standards. The International Chamber of Commerce's arbitration and dispute resolution facilities and trade finance documentation activities address some of the same issues as the World Bank. In addition to the institutions mentioned so far there are at least 200 internationally active financial associations that provide information, technical services (such as clearance and settlement), professional standards (such as the Certified Financial Planner CFP designation), and lobbying capacities, often on a regional basis.[15]

The new institutions that have been added since the demise of the Bretton Woods system also differ noticeably in their scale. One aspect of this is the growth of public and private institutions at the regional scale. Public sector regional integration efforts usually have a financial or monetary dimension that has been added or strengthened in the current period as compared to the Bretton Woods period. The European Union and the Chiang Mai Initiative (the latter's origins lie in the ASEAN Swap Arrangement, established in 1977), and the dozen regional bank supervisory groups have already been noted. Around the world regional initiatives promoting monetary and financial cooperation have proliferated.

In Asia these include (with the dates they were established): the ASEAN-related ASEAN Finance Ministers' Process (1997); the ASEAN Central Bank Forum (1997), the ASEAN+3 Finance Ministers' Process (1999), the ASEAN Economic Review and Policy Dialogue (2001), and the ASEAN+3 Research Group (2004). The Asia-Europe Meeting (ASEM) has fostered other such initiatives, including the ASEM Finance Ministers' Process (1997), the ASEM Trust Fund (1998), the Kobe Research Project (2001) and the Tianjin Initiative (2005). Other Asian initiatives include the SEACEN Research and Training Centre (1982), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP, 1991), SAARCFINANCE (1998), the Manila Framework Group (1997), the APEC Finance Ministers' Meeting (1994) and the APEC Regional Bond Market Initiative (Asian Development Bank and Boao Forum for Asian, 2007).

In Latin America, in addition to the Inter-American Development Bank, CEMLA, CABEI and the CDB, there is the Agreement of Reciprocal Payments and Credits of ALADI (Latin American Integration Association), established, in 1982 and the Andean Reserve Fund (FLAR) which in 1991 replaced the Andean Reserve Fund (1978) and has been quite important in balance of payments financing (Chang, 2000; Machinea and Titelman, 2006). In Africa there is the CFA and ECOWAS-related West African Economic and Monetary Union (UEMOA, created 1994) and the overlapping West African Monetary Zone (WAMZ, created 1999), the SADC-related Common Monetary Area mentioned above, the Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC), which replaced the Customs and Economic Union of Central Africa in 1999 and whose members share the CFA Franc (Nnanna, 2006). The 2001 decision to transform the Organization for African Unity into the African Union stimulated commitments to monetary union. In 2003 the Association of African Central Bank Governors

[15] This estimate of the number of international financial associations is based on a research project on this topic, which is reported in part in McKeen-Edwards and Porter, 2005 and Porter, 2006b.

announced that it would work towards a single currency and common central bank by 2021 (Masson and Pattillo, 2004). In the Middle East the Gulf Cooperation Council is working towards monetary union, initially planned for 2010 a deadline that was acknowledged as unrealistic by member-states in 2007. The Arab League-sponsored Arab Monetary Fund was created in 1975 (*Facts on File*, 1975) and together with other multilateral Arab aid institutions, as noted above, would account for a very significant amount of development assistance, although the AMF itself had difficulties with a conviction for embezzlement of a former AMF president and three aides in the mid-1980s (*Associated Press*, 1987*)* and in the 1990s defaults by Iraq, Sudan and Somalia valued at 43% of its $1.3 billion capital that impaired its ability to expand lending (*Khaleej Times*, 1992). In 2001 the chair of the AMU called for an Arab Common Market and a unified Arab currency (*Gulf News*, 2001).

Regionally based private-sector institutions have also proliferated. More than half of the more than 200 transnationally active financial associations mentioned above are regionally based. A significant proportion of these (about a third) are in Europe (which tend to be associated either with the EU or the London markets), but the rest are outside the OECD. The purposes of these associations vary greatly. They include accounting, banking, insurance, micro-finance, development finance, and securities markets associations. Some are oriented towards providing training, some towards providing finance, some towards specialized services such as clearance and settlement, and some towards influencing public policy debates.

Significance of these changes, especially for the IMF and World Bank

The significance of the above changes will be discussed in three steps. First, the degree of change will be assessed. Second, explanations for the change will be considered. Third, and most importantly, the significance of these findings for the IMF and World Bank will be considered.

Assessing the degree of change

Precise quantitative indicators of the changes above are not feasible. Data based on budgets or personnel are not a good indicator of success or influence because institutions may exert their influence by being a small but crucial link in a larger and very important policy process. For instance the G7/G8, in operating as a coordinating committee of the most powerful states on the most important issues, is far more significant than many larger organizations, even though it has no budget, secretariat, or founding constitution.

Despite this difficulty one can state with confidence that in the governance of global finance universal public formal organizations, including the IMF and World Bank, have seen their relative power and influence decline significantly as compared to institutions that are less universal, public and formal. With the exception of IOSCO no new universal public formal institution was created to govern global finance since Bretton Woods while a great many institutions that are less universal, more private, and more informal have been created.

As well, some of the growth in the roles played by universal, public or formal organizations has involved a growth in their involvement in less universal, public or formal activities. In the case of the IMF and World Bank, their major new responsibility in global financial governance in the past decade has been the promotion of financial standards and codes, many of which are developed in the more informal or private institutions mentioned above. In the case of the BIS, while the organization has displayed a significant growth in members and the opening of new regional offices, which brings it closer to being a universal organization, the other more significant organizational change associated with it since the end of Bretton Woods is the informal regulatory committees that it hosts but that it does not formally control. Similarly the OECD added members but also greatly expanded its involvement in networks, such as the Global Corporate Governance Forum (with the World Bank) the Forum for Asian Insolvency Reform, the Annual OECD/World Bank Global Bond Market Forum, the Annual OECD Global Forum on Public Debt Management in Emerging Government Securities Markets, and the International Network of Pension Regulators and Supervisors.

The main exception to this pattern is in Europe where a public, formal and regional organization—the EU—has taken a much larger role in international monetary and financial governance and where a new formal public multilateral development bank—the EBRD—has been created. However these European exceptions interact more with informal private policy actors and processes than was typical of public formal regional organizations during the Bretton Woods period. The role of the IMF in lending, conditionality and structural adjustment from 1982 to 1997 was also a countertendency to the shifts noted above since this involved quite a dramatic new role for a universal public formal institution, but the crisis that the IMF is currently experiencing indicates that this role is either disappearing or will need to be reinvented in some new form.

Looking specifically at the IMF and World Bank, some of the key functions that they had carried out in the Bretton Woods period are coming under intensified competition from new actors, including the provision of financing, policy advice, and policy credibility. However the countertendencies to the shift to less universal, formal and public forms of organization that were noted above also create challenges to the IMF and World Bank. The expansion of the BIS, the OECD, and the EU, and the creation of IOSCO all bring competing formal public international institutions closer to the universal character that had been a more unique feature of the IMF and World Bank. Moreover some of the IMF and World Bank's institutional growth has been towards financial regulation, which these other institutions also address, and some of IMF and World Bank's functions have migrated into private markets for which the regulations that these competing organizations address are as important as any of the activities of the IMF and World Bank.

Overall we may characterize the changes in global financial governance that have occurred since Bretton Woods as a shift from a market dominated by large formal public institutions, each with a unique and mutually exclusive role, differentiated by function or by the universal/regional distinction, to a market where five formal public institutions that are increasingly similar in their scales and functions—the IMF, World Bank, OECD, BIS, and IOSCO—are competing with one another, and a sixth formal public institution, the EU, is also becoming larger-scale as it becomes more active in international monetary and financial matters. These formal public institutions increasingly need to carry out their work by interacting with a variety of new actors that differ in form, many of which also compete with the public formal and more universal organizations in their contributions to international monetary and financial governance. We now turn to the question of why these changes have occurred.

Explaining changes in the market for international financial and monetary governance since Bretton Woods

How can we explain the changes that the previous sections have described? One possibility is to look at the individual history of each institution and to treat the overall change that has occurred as simply the sum of the effects of each of these. Certainly particular historical developments, such as the installation of a new President at the World Bank, can have significant impacts on the development of an institution. However the consistencies in the trends identified above suggest that more general or systemic factors are at work. Let us return then to the conceptual issues discussed earlier in this paper. Do power and efficiency imperatives, and environmental changes, work through the varying forms and functions of the institutions to explain their reconfiguration?

One obvious epochal change that is evident in both the environment and institutional features of the two periods was the shift from the public to the private. The distance between the public sector netting arrangements in the European Payments Union of the 1950s and the complex private institutions that make foreign exchange and derivatives markets possible today is vast and seemingly irreversible. Efficiency explanations would stress the greater flexibility and efficiency of the latter, while power-oriented explanations would stress the role of US firms and the US government in promoting a more market-oriented system that reflected their interests and capabilities. Precisely determining the relative merits of these two explanations is impossible, especially in a paper of this scope. The measurement of costs and benefits that is needed to assess efficiency gains is far too complex and disputed. For instance should we charge the costs of financial crises to the new market institutions or to lingering failures of public-sector institutions? There is no consensus on this. Despite this measurement problem, power and efficiency explanations point in the same direction—towards a greater reliance on markets—for much of the period under consideration and together can certainly explain the shift from public to private.

What can explain the shifts in scale and formality of the public-sector institutions discussed above? Efficiency and power approaches each can provide partial explanations. With regard to efficiency, the rapidity of change that has occurred in global money and finance has required a degree of flexibility in institutional response that the universal formal public institutions such as the IMF and World Bank were poorly suited to providing. Moreover many of the problems in financial markets that needed addressing during this change were ones that appeared first in the most developed financial markets, where new techniques such as derivatives originated. As the markets and problems spread to other regions of the world cautious and incremental initiatives were taken to include new actors, such as the Basel Committee's development of relations with regional groupings of bank supervisors, the OECD's teaming up with the World Bank to create networks to integrate non-OECD countries into its work, or the creation of the G20. The emergence of the G7/G8 and the informal technical committees at the BIS and OECD are consistent with this explanation.

One can also provide a parallel power-based explanation: these informal and unaccountable groupings allowed the most powerful countries to dominate the emerging processes of governance, only allowing just enough growth in inclusion to address systemic problems without threatening their dominance. A complementary power-based explanation would stress the growth in power of emerging market states which were then able to progressively demand greater inclusion in the informal groupings. Key parts of the changes are consistent with a reworking of institutions to shift more globally oriented ones away from the earlier European focus of the BIS or the OECD to include new emerging market actors. Europe, including the smaller states whose global voice in the IMF, World Bank, OECD's WP3 or the G10 are significantly reduced when the G7/8 and G20 take the lead, has countered this shift with its own EU-based growth in institutional cohesion, its support of the OECD in which it has a greater voice relative to the Bretton Woods institutions, and through attempts to engage emerging markets directly, such as the ASEM processes, assistance to the Gulf Cooperation Council's efforts at monetary integration, or the ongoing efforts at regional monetary coordination associated with the CFA Franc-related zones in Africa. Much as with the public/private shift the relative merits of these two explanations cannot be resolved here, but both largely point in the same direction and together can provide good explanations of the shifts involving public-sector institutions.

The above points are consistent with both monetary and financial governance changes. Transnational financial governance as it has emerged has generally relied upon G7 leadership, informal committees at the BIS or OECD, the incremental inclusion of new actors through networks dominated by these institutions, and implicit or explicit delegation of governance responsibilities to the private sector, with variations in the patterns and degree of inclusion reflecting the character of the problem to be addressed. Efficiency explanations of monetary cooperation could stress optimal currency area theory which emphasizes conditions contributing to correlations between disturbances affecting countries (Chang, 2000). For instance despite the desire expressed in other regions to emulate the European success with monetary integration the difficulty in doing so is certainly exacerbated by the lack of such conditions. Yet power explanations provide insights as well. African monetary integration initiatives that have been most successful were connected to a powerful state—either France in the case of the CFA Franc-related initiatives[16] or South Africa in the case of the RMA/CMA/MMA. The hostility of the US and the IMF to the proposal for an Asian Monetary Fund in response to the East Asian financial crisis of 1997 and the subsequent construction of an alternative based in the ASEAN+3 process is as much about power conflicts, and who should control governance arrangements in a changing geopolitical landscape where East Asian power and capabilities are growing relative to the US as about the relative efficiency of the two alternative arrangements.

The anomaly that fits poorly with the above explanations is IOSCO, the only institution concerned with regulatory cooperation created since Bretton Woods that has taken the form of a universal formal public organization. Although IOSCO adopted its current name and global mandate in 1984 it previously took the form of an Inter-American association of securities commissions that was established in 1974. In its early years, before becoming IOSCO, it was oriented towards the establishment and expansion of securities markets in developing countries in the Americas and its formal structure may reflect those times and tasks. As it became universal and more involved in regulatory matters, its powerful Technical Committee took on some of the informality and exclusivity characteristic of regulatory groupings elsewhere. Nevertheless its formal and universal structure does not fit the general pattern.

Significance of these findings for the IMF and World Bank

The above section has highlighted the degree to which the IMF and World Bank are facing competition from similar universal, formal, public institutions and from other institutions that

[16] Chang (2000) notes "Convertibility of the CFA franc is guaranteed by the fact that zone members are given unlimited overdraft facilities at the French treasury, provided they keep at least sixty five percent of their gross foreign exchange reserves in a Treasury deposit. This implies that the French government has implicitly agreed to take the role of lender of last resort in the CFA zone." Dollarization is another form of cross-border monetary integration that strongly reflects power asymmetries.

differ in publicness, formality and scale. I have indicated that this is consistent with both efficiency and power considerations. This suggests that some of the challenges these institutions are facing are not solely related to shorter-term institution-specific factors, such as the IMF's shortcomings in the financial crises of the late 1990s, or the conflicts at the World Bank over the conceptual orientation of the *World Development Report* (Wade, 2001) or over Wolfowitz's appointment, tenure, and departure, but instead reflect longer-range shifts in the "market for international financial institutions." Nevertheless it is worth considering in more detail whether the form and functions of the IMF and World Bank are likely to lead to growth or decline in their future roles in this new and more competitive environment in which they find themselves.

There are four main functions that the IMF and the World Bank carry out. These are intermediated financing; the generation and promotion of policy advice; the establishment of credibility in markets for member-states; and the fostering of interactions among national officials. Does the organizational form of these two institutions give them an advantage relative to competing institutions in carrying out these functions?

Until recently elements of the IMF's organizational form worked together effectively to give it a distinctive advantage relative to its competitors. Its staff of highly qualified economists provided policy advice that was respected by member-states and credible to markets. The financing it made available was linked to conditionality and surveillance processes that further enhanced credibility of borrowers in private financial markets and also helped to ensure repayment to the IMF. This linking of financing and policy advice set the IMF apart from competitors such as the BIS and the OECD that also offered policy advice. The IMF was well positioned to unilaterally supply advice to developing country borrowers that lacked technical capacity in monetary and macro-economic matters, substituting for the function of fostering interaction among national officials. The IMF's more universal membership relative to the OECD and BIS gave it an advantage in doing this. The unified and consistent perspective that the IMF staff was able to produce (as compared to the informal regulatory groups for instance) further enhanced the credibility and attractiveness of the policy advice. These points suggest that the IMF's organizational form allowed it to carry out these functions efficiently. The IMF's location in Washington, the US-based training of IMF economists, and the influence that the US was able to exert in the IMF through its weighted voting system all were consistent with the distribution of world power and these power-oriented factors too were favorable to the IMF's ability to compete with other institutions.

Several ways in which these organizational advantages have become liabilities further reinforce the conclusion that the IMF's difficulties are reflective of long-term changes in the market for institutions, even though some of these liabilities only became obvious following the East Asian crisis. Knowledge production in the IMF's competitors is more flexible and consultative.[17] In the informal regulatory groupings and in the OECD new knowledge tends to be generated by more collegial canvassing and identification of best practices which are then promoted through peer review. Often non-state actors are drawn into these. New policy documents are often offered for public comment before they are revised, as with the Basel Committee's three major revisions of the Basel II capital adequacy agreement. This means that the knowledge produced can be more sensitive to changing local nuances.

The IMF has sought to move in this direction with its PRSP process and an emphasis on local ownership, but its knowledge production processes continue to be much less flexible and more hierarchical than its competitors. In the past the single unified signal of credibility that the

[17] On the IMF staff see Momani, 2005.

IMF was able to associate with sovereign borrowers was effective in enhancing their reputations in markets. Given the swings between crisis and exuberance in sovereign debt markets this signal's simplicity was effective in standing out from what otherwise would have been a cacophony of assessments. However today borrowing has become more complex, local market settings matter more, and this simplicity has become a liability. Moreover, as market-based[18] or legal[19] compliance mechanisms are established for the best practices developed by the IMF's competitors the distinctive advantages conferred on IMF advice by its conditionality and surveillance processes diminishes. When exchange rate or balance of payments problems are associated with powerful countries like the US or China, or countries that do not rely on IMF financing, the leverage of conditionality and surveillance provided by the IMF confers no particular advantage on its policy advice relative to that provided at the OECD and elsewhere. The relative shift in power, financing, and analytical capacity away from the US that has occurred diminishes the advantage that had been conferred on the IMF because of the consistency of its organizational features with the distribution of world power. The growth in membership of the OECD and BIS further erode the IMF's distinctive advantage of universality. Both are strengthening their relations with developing countries, including China.

In providing emergency balance of payments financing the IMF has an efficiency and a potential power-related advantage over some competitors. It is more efficient to pool risks across a greater number and more diverse group of countries and this favors the IMF over regional arrangements such as the Chiang Mai Initiative, although the BIS, which historically has played an important role in swapping currencies to forestall exchange rate problems, increasingly has the potential to do this just as efficiently as the IMF as its membership increases. Politically, the IMF's formal structure might in theory make it more accountable and transparent than its competitors, although the mismatch between its weighted voting system and the countries most likely to need to use it as a risk-pooling arrangement tends to cancel this advantage. As the growth of financial markets has outpaced the money that can be mobilized unilaterally or multilaterally by states to defend currencies in times of crisis, preventative measures such as macroeconomic coordination or strengthened financial regulation have become relatively more important, and the IMF's competitors such as the G7/8, the OECD, and the BIS-based committees have far outpaced the IMF in their capacity for providing these.

The World Bank's organizational form displays many of the same advantages and disadvantages in carrying out the above four functions as the IMF's, however it displays four differences that equip it better to compete in today's market for international financial institutions. First, its long history of producing knowledge about economic development has made it more sensitive to the need to tailor its advice to take microeconomic, institutional, and country-specific factors into account and its institutional ability to absorb diverse new ideas is greater than the IMF's, although time pressures and internal power relations and organizational culture continue to make this a challenge.[20]

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[18] For instance this matching of standards and codes and market pressures for compliance has been a goal of the Financial Stability Forum and constitutes the third pillar of the Basel II agreement.

[19] Legal compliance pressures can occur when international standards are written into domestic regulation; or when their adoption is a condition of membership in a valuable organization, as is the case with the OECD commitments on capital liberalization.

[20] See for instance Bebbington et al, 2004.

Secondly and relatedly, the World Bank has a longer history of institutionalizing successful interactions with non-state and other public sector actors than the IMF and this makes it better able to compete with organizations like the OECD where this capacity is well developed. With regard to non-state actors the World Bank's close interactions with the private sector, as noted above, go back to the establishment of the International Finance Corporation in 1956, and the International Centre for Settlement of Investment Disputes in 1966, and beginning in the 1980s have also included efforts to institutionalize interactions with non-business civil society actors (O'Brien at al, 2000).

The third difference with the IMF is the World Bank's longstanding need to consider the interface between financial policy issues and other public, social and legal policy issues. In that regard it is quite similar to the OECD for whom working at this interface has also been a distinctive feature (Porter, 2007). In the past decade many of the major international financial policy issues that have been most pressing have crossed over this boundary, including financial market legal infrastructures, corporate governance, privatization, tax evasion, financial services trade liberalization, private pensions, and financial education, and either one or both of the World Bank and OECD, and sometimes both jointly, have been heavily involved in these.

Fourth, the relationship between the World Bank's policy advice, financing, and credibility-enhancing capacities differs from the IMF's in the degree to which it raises money for states on capital markets for long-range development financing rather than by pooling contributions from states to address short term crises. The IMF's specialty has been to substitute its credibility and conditionality for the credibility and resources of individual states *after* those states have entered periods of crisis where markets have threatened to desert them. The World Bank's specialty has instead been to substitute its credibility for individual states in order to tap capital markets for new projects that should only be proposed if they are expected to be economically and financially viable. This is a financing model that interacts with current trends in private financial markets in a way that is more compatible and easier to sustain than the IMF's model.

The World Bank also faces competition from other institutions in providing this credibility-enhancing function. This competition comes from credit-rating agencies and private financial analysts and the direct accessing of capital markets by developing country governments, although the limitations of these agencies and analysts have become apparent in bubbles and crises. As well increasingly the lead on providing this credibility for direct investors (and increasingly for portfolio investors) has been taken by the OECD through its capital liberalization obligations (Abdelal, 2007) and its important role in fostering the thousands of bilateral investment treaties that constitute an emerging regime for direct foreign investment (Williams, 2007). The OECD Working Party on Debt Management, established in 1979, has become an important venue for officials to share information on the mechanics of government securities markets and since 1990 this Working Party has worked with transition and emerging economy governments in an Annual OECD Global Forum on Public Debt Management in Emerging Government Securities Markets (which involves private sector participation) and together with the World Bank on an annual Global Bond Market Forum. Regional development banks also provide competition in this function to the World Bank. In regions where regional resources can be mobilized, such as with East Asia or Latin America, the regional scale and the greater sensitivity to regional differences can provide an advantage to regional development banks, but where this is not the case, including Africa, the World Bank's larger scale and more universal character is an advantage.

Despite these challenges for the World Bank, it continues to have a distinctive role in providing the four functions listed above to the poorest countries, even as middle income countries shift their attention from the IMF and World Bank to regional arrangements, informal groupings, the OECD or the BIS. As noted above, the OECD and the World Bank enjoy certain important complementarities and their stepped up collaboration in networks that also involve non-governmental actors reflects this.

Conclusion

This paper has assessed the past and prospective roles of the IMF and World Bank by treating them as operating in a changing market for international financial and monetary institutions. It was proposed that success or failure of institutions in this market were related to the efficiency with which their distinctive institutional forms could carry out particular pressing functions and to the consistency of that organizational form with the global distribution of power. The examination of two very different historical periods, before Bretton Woods and after the East Asian crisis of 1997, revealed macro-historical changes in the forms taken by institutions in this market for international financial and monetary governance, most especially a very significant shift in the publicness, formality, and universal scale that had characterized the most important institutions in the Bretton Woods period. Private, informal, and regional and other smaller scale institutions have proliferated and the public formal organizations of the earlier period shifted their own activities in this direction as well. The World Bank and IMF also faced intensifying competition from public formal organizations on the dimension of the universality of scale in the case of the BIS, the OECD, the EU, and IOSCO. All these changes strongly suggest that the difficulties facing the IMF and World Bank are long-range ones involving changes in the market for international financial institutions rather than particular problems with each institution and its tasks. With the exception of IOSCO, the trends revealed by this comparative historical analysis were generally consistent with the conceptual approach proposed, confirming the usefulness of that approach, not just for revealing macro-historical changes, but also for analyzing the competitive strengths and weaknesses of particular international institutions.

The most likely future scenario to which this analysis points is the continued growth of less public, formal and/or universal organizations, and of the BIS, OECD, EU and IOSCO at the expense of the IMF. The World Bank is likely to become more integrated into the complex institutional landscape in which it finds itself, especially in complementary collaborations with the OECD. It is unlikely that the IMF will easily find a distinctive role for itself that will allow it to compete effectively in this environment. However the IMF very successfully changed its functions and organizational form once before—in the aftermath of the collapse of Bretton Woods— and thereafter enjoyed a period of remarkable growth in its role. If the macro-historical changes in the market for international financial institutions that have occurred are adequately considered and the IMF's forms and functions altered accordingly then it may once again be able to accomplish such a revival.

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