

**FOR  
AGENDA**

SM/84/242

October 30, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Fund-Bank Collaboration and the Adjustment Process - Issues  
for Consideration

Attached for consideration by the Executive Directors is a paper on issues for consideration relating to Fund-Bank collaboration and the adjustment process.

This subject, together with a background report on further progress (SM/84/210, 8/27/84), will be brought to the agenda for discussion on a date to be announced.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

Fund-Bank Collaboration and the Adjustment Process -  
Issues for Consideration

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(In collaboration with other departments)

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I. Introduction

Since the decision was made at Bretton Woods 40 years ago to establish the Fund and the Bank as separate institutions, a subject of recurrent interest has been the relationship between their respective roles in the international economic sphere. This topic has acquired increasing importance over the last decade as the problems confronting the international economy in general and individual member countries in particular have grown in magnitude and complexity. During this period, both the Fund and the Bank adapted their respective policies in an attempt to address the changing adjustment needs of many members and, at the same time, to support and encourage them in undertaking and sustaining commensurate adjustment efforts.

The adaptations on the part of the Fund encompassed all areas of its broad mandate, which directs the organization to "oversee the international monetary system in order to ensure its effective operation" according to the code of conduct set out in the Articles of Agreement of the institution. In the specific area of balance of payments financing and adjustment, the adaptations recognized that the nature and scale of imbalances often called for the necessary adjustments to be effected over the medium term and that, therefore, some members would need financial support over a period of several years to restore viability to their balance of payments. Consequently, over the last ten years, the Fund has moved to provide members with larger resources for longer periods in support of policy programs extending up to three years.

These adaptations were paralleled by a development of the Fund's responsibilities for surveillance of all members' exchange rate policies, with the aim of ensuring that the international monetary system facilitates trade and capital flows so that the underlying conditions for financial and economic stability are developed. Such an environment would be conducive to orderly economic growth with reasonable price stability and thus, it would assist rather than hinder balance of payments adjustment efforts.

For its part, the Bank has taken steps to increase and adapt the flow of resources to developing countries. Since 1980, it added structural adjustment lending (SAL) operations to its existing program and sectoral loans, and it also initiated the special assistance program (SAP). One effect of these adaptations has been to involve the Bank more explicitly in aspects of balance of payments adjustment. In this broadening of its operations, the Bank has given greater emphasis than before to policy and institutional reforms which often are essential to greater efficiency in the use of resources. One aspect of this change has been increasing efforts by the Bank to encourage improved trade policy and performance, including efficient import-substitution (particularly of food and energy) and enhanced export capacity.

This extension of the activities of both organizations in response to the problems facing members has brought them into a close and complementary relationship and it has given increasing importance to the whole subject of Fund-Bank collaboration. <sup>1/</sup> In the changing circumstances, it was clear that for many countries, if adjustment was to relieve debt burdens while allowing economic recovery, it had to include the reduction of chronic public sector imbalances, of severe cost-price distortions and of other rigidities in their economic structures. Each institution had a specific and mutually reinforcing contribution to make in supporting this process.

The purpose of this paper is to provide, from the perspective of the Fund and its activities, a basis for a discussion in the Executive Board of current issues relating to Fund-Bank collaboration. The plan of the paper is as follows: Section II analyzes the basic principles of the relationship between the Fund and the Bank from the standpoint of their distinct characters and responsibilities, which stem in turn from their respective mandates; Section III focuses specifically on the role of the two institutions in the adjustment and financing of external imbalances; Section IV discusses a number of issues that have arisen regarding the procedures for collaboration; and finally, Section V draws some conclusions.

## II. Principles of the Relationship Between the Fund and the Bank

### 1. Institutional mandates

The purposes of the Fund and the Bank (and IDA), laid down in Article I of their respective Articles of Agreement, supplemented in the case of the Fund by Articles IV and XV, are closely interrelated. <sup>2/</sup>

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<sup>1/</sup> For a recent survey of experience in this area, see "Fund-Bank Collaboration - A Further Progress Report" (SM/84/210, 8/27/84), which also describes the evolution of procedures and practices to enhance cooperation between the two institutions.

<sup>2/</sup> For the convenience of readers, the text of these Articles has been reproduced in the Annex.

Both organizations were created with the general aim of promoting the expansion and balanced growth of world trade, equilibrium in balances of payments, the development of the productive resources of members, high levels of employment and increasing living standards. In this context, a 1966 memorandum which laid out formally basic principles of Fund-Bank collaboration stated:

Both institutions are concerned with the economic and financial structure and progress of their members. In the final analysis, there is no aspect of that structure or progress of which either institution can afford to be ignorant or which is irrelevant to its efforts to assist the member. 1/

Within the framework of these shared objectives, reasons of efficiency and specialization led to the assignment of different tasks to each organization. Those of the Fund relate broadly to exchange stability, international payments, and balance of payments adjustment. Those of the Bank relate to international investment, the development of resources, and, in the immediate postwar period, the reconstruction and reconversion of war-time economies. 2/ In the area of international trade, the promotion of which is included among the purposes of both the Fund and the Bank, the original conception had been that these two institutions would be complemented by a third organization, the International Trade Organization (ITO), on which discussions had begun as early as those concerning the Fund and the Bank. These original efforts eventually led to the establishment of the General Agreement on Tariffs and Trade (GATT) which has assumed many of the specific responsibilities envisaged for the ITO.

From the outset, the Fund has been charged with upholding a code of conduct by which members undertake to abide in their international financial and economic relations. This explicit mandate is the basis for the Fund's jurisdictional, advisory, and financial functions. All these functions are interlinked and mutually complementary in that they serve to ensure that the international economy and the economies of members function in an environment conducive to growth, price stability, and external payments viability and which is characterized by freedom of international transactions. Thus, the Fund has general

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1/ See EBD/70/38 (2/19/70), Attachment C, paragraph 2.

2/ In 1946, in accordance with a resolution of the Board of Governors of the Bank, the Bank Executive Board decided that the Bank also had authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans. For the text of the report of the Bank Executive Board's Committee on Interpretation, see IBRD, First Annual Report by the Executive Directors, Washington, D.C., Sept. 27, 1946, pp. 22-27. See also Joseph Gold "The Relationship Between the International Monetary Fund and the World Bank," Creighton Law Review, Vol. 15, 1981-82, No. 2, pp. 494-521, especially pp. 510-11.

responsibilities toward the international monetary system as well as specific responsibilities toward its member countries. Furthermore, these latter responsibilities apply without distinction to the entire membership, developed or developing, creditor or debtor. These factors are reflected in the collaborative character of the Fund and explain the central importance that the deliberations of the Executive Board have for the activities of the institution.

Since the end of the postwar reconstruction period, the Bank's primary function has been to promote investment and structural change to facilitate the flow of resources to developing countries and thus foster their development and growth. As a development, rather than a monetary, institution, the characteristics of its relationship with individual members varies, depending on whether or not they are borrowers. Over the years, not only has the Bank directly transferred a substantial amount of long-term capital to developing countries, but it has also promoted favorable conditions for productive investment, thereby catalyzing enormous additional flows of such capital to support growth and development. The activities of the two organizations thus complement and reinforce one another in the attainment of their common aims.

## 2. Implementation of mandates

In supporting members' balance of payments adjustment efforts, the Fund provides both policy advice and financial assistance. The Fund has a responsibility to take a view on the policies of all members, not only members that are seeking to use or are in fact using Fund resources. This responsibility is discharged on a regular basis through an annual consultation process that involves all the membership. Thus, the Fund's role in the area of policy formulation is carried out generally through the exercise of surveillance and not only through the implementation of the conditions attached to the use of Fund resources.

In parallel with the adaptations made to Fund financial assistance in recent years to allow for the use of more Fund resources over a longer period of time, the scope and means of surveillance were also expanded. Besides the annual Article IV consultations with all members, surveillance can also be exercised through other consultations or reviews that may be called for in special circumstances; all of these are supplemented by periodic reviews by the Executive Board of the world economic outlook. In order to allow members' exchange rate policies to be assessed adequately, surveillance has itself expanded in scope to include substantive analysis of areas of policy difficulty as they arise over time, such as structural rigidities, external debt management, and trade policy. As many members' problems have grown in depth and complexity, so has the time required for their resolution; Fund policy appraisals have therefore increasingly been formulated by reference to a medium-term setting, in order to trace the envisaged path of adjustment clearly.

Surveillance and the implementation of conditionality are mutually supporting activities. A key purpose of surveillance is to promote the implementation of policies by all members that will bring about an international environment conducive to sound and sustained growth and characterized by financial and exchange stability. Conditionality contributes to this process by ensuring that the policies pursued by those members using the resources of the Fund in order to redress their external payments imbalances are consistent with that key purpose of surveillance.

In the implementation of its mandate to foster productive investment and structural change for development, the Bank has used project lending to developing countries as its main vehicle. <sup>1/</sup> Such lending is subject to conditions in the form of policy covenants, normally directly related to the characteristics of the project itself or to those of the sector with which it is associated. As noted earlier, project lending has progressively been supplemented by loans of a more general nature allowing for a faster flow of resources to developing countries. These loans in turn carry policy-related covenants aimed at ensuring that appropriate sectoral, structural adjustment, and resource mobilization policies are pursued.

In accordance with the purposes specified in its Articles of Agreement, the Bank has also played an important role in channelling capital flows toward efficient users. In this respect, the Bank's work in assisting its members formulate and appraise investment programs and development strategies as well as its role in assessing public sector expenditure programs is crucial. The Bank is also concerned with the international policy issues that relate to its broad mandate; important aspects of this work of the Bank are economic research and analysis on international economic subjects, including the preparation of World Development Reports which deal with different major international development issues each year, and the Bank's support and participation in international meetings dealing with important economic and development issues.

### 3. Division of functions and areas of common interest

A key objective pursued by the Fund in its support of members' adjustment efforts has been the attainment of a viable external payments position over the medium term. This objective is sought in the context of a sustainable level and growth rate of economic activity, reasonable price and exchange rate stability, and within the framework of a liberal system of multilateral trade and payments, thus contributing to the basic purposes of the Fund.

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<sup>1/</sup> See Article III, Section 4(vii) of the Bank's Articles of Agreement, which states: "Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development." Lending for specific projects has been interpreted by the Bank to mean lending for any specific productive purpose.

The Bank seeks to foster development and growth by promoting structural change and appropriate conditions for the investment of capital for productive purposes, both domestically and across national borders. These objectives are complementary to those of the Fund. By furthering domestic investment, the adaptation of productive facilities, and foreign investment in general, as well as by helping countries in making efficient choices on investment and development priorities, the Bank contributes to the same purposes in the areas of trade, the balance of payments, employment, and real income as those that are pursued in the Fund.

In the pursuit of these basic purposes, members are concerned with the quality of each others' economic and financial management. These concerns are expressed through the Fund and the Bank, and both of which are responsive to those concerns. However, given the distinct--albeit, complementary--functions and time horizons of the two institutions, their respective assessments are necessarily made, from different vantage points. Both organizations were established to have specialized functions and in practice this has contributed to the efficiency of each. The Fund was recognized as having primary responsibility for balance of payments adjustment policies, including exchange rates and restrictive systems. The Bank was primarily responsible for development programs and project evaluation. Despite this separation of functions, it was always recognized that between their distinct areas of responsibility a broad range of matters existed which were of common interest to both institutions. The implication of these areas of common concern was that efforts had to be made continuously, through close working relationships, to avoid conflicting views and judgments. The aim was not to force a uniformity of views, but to establish procedures that would allow a full discussion of any differences to avoid giving contradictory policy advice to members. In the process, it was expected that the quality of policy advice would improve.

These basic principles, together with procedures for their implementation, were laid out formally in the 1966 memorandum mentioned earlier; the principles have been restated and the procedures adapted on various subsequent occasions. <sup>1/</sup> The principles and procedures as they evolved were contained in EBD/80/161 (6/9/80) "Fund Collaboration with the Bank in Assisting Member Countries" (attached). These principles are based on the intimate link between the specific objectives and purposes of the Fund and the Bank discussed above and they remain valid. They recognize that a country's productive resources cannot be properly developed if balance of payments difficulties persist; in turn, the achievement of a sustainable balance of payments position in the context of freedom of international transactions depends inter alia on the efficient use and deployment of resources over time.

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<sup>1/</sup> See SM/84/210 (8/27/84) for a detailed description of these periodic reviews.

It is important to note that efficiency in the allocation and use of resources is a critical element both for balance of payments management and for the promotion of development, and it is therefore of great concern to both institutions. It is clear that collaboration between the Fund and the Bank in this area of common interest, by serving to enhance the efficiency of countries' resource use, increases the ability of each to discharge its specific responsibilities. Thus, promotion by the Bank of policies that help to arrest or limit inefficient resource use, for example, through an appropriate setting of investment priorities consistent with the flow of available investment resources over time or a rehabilitation of public enterprises, can be essential elements to support the Fund's task of assisting members in redressing their external imbalances; conversely, promotion by the Fund of policies to redirect resources toward relatively more productive sectors, for example through realistic exchange rate policies or a reform of the restrictive system, cannot but contribute to development and growth.

Easing the balance of payments constraint at minimum cost in terms of forgone domestic output calls for appropriate domestic fiscal and monetary management, supported by sound exchange rates and interest rates, realistic economy-wide pricing, and effective external debt management. All these serve not only to bring about the required balance of payments adjustment and to maintain external stability, but also to promote sound economic growth. Growth and efficiency are also facilitated by the elimination of restrictions on international trade and payments, where they exist.

From an economic policy perspective, a necessary condition for an economy to realize its growth and development potential is the maintenance of both domestic macroeconomic balance and a realistic price relationship with the rest of the world, the promotion of which falls within the scope of the Fund's responsibilities. There is no substitute for overall financial balance and appropriate pricing relationships in the development process. Indeed, policies in these areas become even more critical if development policies narrowly defined are inadequate, since inappropriate development policies render the attainment of macroeconomic balance more arduous by tightening the balance of payments constraint unnecessarily. Nowhere is the complementarity between the Bank and the Fund better illustrated than in this context. Bank assistance to ensure project and sectoral efficiency and to set realistic investment priorities can be one of the key pillars of support of the Fund's endeavors toward balance of payments adjustment. At the same time, Fund assistance to ensure an appropriate macroeconomic policy setting can contribute to the favorable environment necessary for the efficiency of the projects and investment programs supported by the Bank.

### III. Practice of Fund-Bank Collaboration

One substantive purpose of Fund-Bank collaboration is to assist members by improving the quality and consistency of the policy advice provided by the two institutions to members concerning the best ways of dealing with their economic problems. From this standpoint, the key consideration is to ensure that appropriate policy advice to members is forthcoming on a consistent basis.

Nevertheless, conflicting views on the appropriateness of various policies will undoubtedly continue to arise from time to time. This can be a positive development, as the resulting exchange of views can sharpen the analysis, place underlying issues in clearer focus, and improve the quality of policy recommendations. Such differences of opinion can arise both in policy areas of common interest as well as in those that are explicitly the special responsibility of one organization or the other. There must be a constructive and orderly system for reconciling such conflicting views, and this must be responsive to the need of each organization to discharge its responsibilities in accordance with its own mandate. The present review of the interaction between the Fund and the Bank can contribute to clarify the framework in which collaboration takes place, thereby making it more effective and enhancing the mutual support that one organization gives the other and that each in turn affords to its members.

In present circumstances, it is also vitally important that collaboration between the Fund and the Bank seeks to ensure that measures designed to bring about balance of payments recovery also serve to further the attainment of longer-term structural and development objectives. It should also help to ensure that development projects and sectoral programs are consistent not only with the financial constraints faced by a country making an adjustment effort but also with efficient resource use. These aims can be promoted by the two institutions effectively encouraging flows of external resources from other sources toward members able and willing to effect the required adjustment. The need for complementarity in the provision of financial assistance must be translated into precise measures and specific actions of the two institutions in dealing with their members. In the policy areas where the responsibilities of the two institutions overlap, activities need to be closely coordinated; in the areas that are the specific responsibility of one or the other, the implementation of the respective mandates laid down in the respective Articles will serve to promote their common objectives.

#### 1. Cross-conditionality and separate accountability

Many members need and will continue to need the distinct though complementary assistance and policy advice afforded by both institutions. It is in this context that the issue of cross-conditionality arises--in other words, the issue of whether financial support by one organization should be made contingent on a decision of the other as to the appropriateness of policies. Executive Directors have stressed on several

occasions the need to avoid cross-conditionality: it is in no way desirable for one organization to have a veto power over the decisions of the other; specific lending decisions must be made on the basis of their consistency with the relevant set of Articles of Agreement and criteria laid down by the respective Executive Board.

As noted earlier, appropriate exchange rate, fiscal, monetary, and foreign borrowing policies are necessary conditions for an adjustment in the balance of payments and for the relief of the associated constraint on growth. In their absence, lending which provides resources to fill the balance of payments gap--even if it is conditioned upon the adoption of measures to tackle specific obstacles to development and growth--is likely to be less effective. The Bank has therefore sought to ensure that its loans help rather than hinder the Fund in carrying out its responsibilities regarding the balance of payments.

It nevertheless remains important to safeguard the principle that each institution is independent and responsible for ensuring that its own lending standards are met, and thus avoid cross-conditionality. This of course does not mean that each organization is to act in isolation and ignore the activities of the other. While there may well be instances where circumstances and policies are such that no basis exists for assistance from either the Fund or the Bank, it is in cases where policies are only partially adequate that difficulties will tend to emerge. In those cases, a judgment will be required as to the appropriateness of assistance in the light of all available information, but in making this judgment each institution must formulate its assessment and make decisions on the basis of its own criteria. Thus, the Fund may find that the member's policies fall short of what is required, in which case no use of Fund resources will be forthcoming. Collaboration means that the Bank will be informed of such a position and the reasons for it, but then it will be up to the Bank to decide, on the basis of its own standards and criteria, whether to proceed itself with lending to the country. Similarly, a Bank decision not to lend to a country, particularly if it is associated with adverse views on the quality of the overall investment effort, would be an element to be taken into account when the Fund applies its own criteria to determine whether to make resources available.

Avoidance of cross-conditionality does not preclude coordinated assistance to members. Indeed, coordinated assistance is particularly important in present circumstances when many members face prolonged and deep-seated adjustment problems. There may be cases where one organization gives assistance on the understanding that the member is seeking or is likely to obtain complementary assistance from the other. In some cases the financial support of the other institution may be needed as part of the process of closing a financing gap and thus helping to ensure the feasibility of the program. Another case might be where close collaboration between the member, the Fund, and the Bank results in the coordination of policy conditions, thus allowing a more comprehensive approach to be taken toward the resolution of the member's adjustment problems. None of these forms of coordination would involve the surrender of any independence in decision making.

Independence in decision making is required to ensure the accountability of each institution to its own Board of Governors as it carries out the responsibilities it has been assigned under its Articles. Each organization is fully responsible for the use made of the resources entrusted to it; to allow the other to determine the circumstances of its loans would be an abdication of this responsibility. Any definition of institutional roles which implies that circumstances could arise when the Bank Executive Board would in effect take the final decision on whether or not the Fund would act on matters that fall within its own responsibility, and vice versa, would not only impair the efficiency of each agency and the effectiveness of its support of members, but also render it less accountable.

## 2. Adjustment and balance of payments financing

In the above discussion, this paper has argued in favor of maintaining the distinct identity of the two institutions, including the avoidance of cross-conditionality, in order to keep each individually accountable. It has also been noted that the Fund, through its surveillance activities and policies on the use of its resources, is continuously involved in the balance-of-payments-related policies of all its members. In this context, it may be noted that the role of the Fund cannot be centered solely on short-term demand management policies. On the contrary, the Fund's responsibility in the policy-making process inevitably concerns medium-term growth prospects and must encompass variables that affect the productive capacity of the economy, if only to ensure the temporary character of Fund assistance.

The Bank's activities to promote adjustment and policy reform and to provide financing constitute a necessary complement to the Fund's efforts. This is particularly the case in its work to ensure that the level and composition of investment are adequate and sectoral resource use efficient. The Bank also plays a central role in the area of aid and concessional flows, which can be supplemented by increasing use of its expertise in encouraging growing flows of official funds, such as export credits and other officially-guaranteed loans, as well as private financial resources, toward members with efficient projects and investment plans. With structural adjustment and other forms of program lending, the Bank can encourage needed policy changes in the policy areas that are not specifically within the Fund's field of expertise and are not addressed by its conditionality, as well as in other areas of common interest such as financial structure, trade policies and resource mobilization, where the Bank staff has accumulated considerable expertise.

In its financial relations with its members, the Fund is principally concerned with the flow of balance of payments finance; the Bank is primarily involved with flows of development finance. The Fund is the principal agency through which the international community formulates a view on the appropriate mix of balance of payments financing and adjustment. This is done in the course of surveillance discussions at

the Fund Executive Board, and more particularly discussions on individual members' requests for use of Fund resources. While the Fund needs substantial resources to support members' efforts to bring their balance of payments to a sustainable position, it neither can nor should always provide all such financing itself. This is particularly true in those cases where the attainment of balance of payments viability is a slow process and where prolonged use could jeopardize the revolving character of the Fund's resources.

Other sources of balance of payments financing need to be closely coordinated with Fund financing and with the Fund's assessment of the member's policies, so that the attached conditions can be consistent and mutually supporting. This has become increasingly important in the case of much commercial bank balance of payments financing. In circumstances where the needs of members are large, increased provision of official and private balance of payments support for members with appropriate policies is essential. Nevertheless, it is vital that those providing this assistance, especially on behalf of the international community, ensure that it supports the conditionality that the international community itself has deemed appropriate. If such assistance is not properly coordinated, it is likely that the degree of conditionality attached to the totality of balance of payments support will be reduced, thus rendering it less effective in promoting needed policy change. With proper coordination, however, combined balance of payments assistance can provide adjustment within a broader scope and encompassing, in particular, the aspects of structural change required for the longer term efficient use of resources, thus helping to restore durable balance of payments equilibrium and sustained growth at an earlier date than otherwise.

The management of the link between balance of payments financing and adjustment for those members facing the prospect of a prolonged use of Fund resources is a critical issue, extensively discussed at EBM/84/94 (6/15/84). The relatively poor balance of payments prospects of the countries in question require the international community to make the choice of whether there should be considerably faster adjustment in these countries, or whether more resources should be made available to them for longer periods. This choice is equivalent to the formulation of a judgment about the appropriate degree of conditionality.

While in the past there have been cases where the Executive Board held that conditionality was too weak and adjustment should have been faster, in others the degree of conditionality has been judged correct and therefore, appropriate adjustment implies the provision of the large resources on adequate terms for longer periods. The question then arises as to the nature and extent of the Fund's involvement in such cases. Protracted financial assistance from the Fund would neither be consistent with its character as a monetary institution with resources that revolve over the medium term nor would the relatively expensive medium-term financing that the Fund can provide be appropriate for a country in such a situation. The bulk of the balance of payments

support that the international community considers appropriate should come from other sources and on suitable terms. The Fund must, however, remain associated with the member's adjustment program, usually providing modest support itself, in order to give those supplying the major part of the assistance an assurance that the conditions for a resolution of the problems are in place.

When a country is facing balance of payments difficulties, however protracted they be, the maintenance of appropriate fiscal, monetary, and foreign borrowing policies and of a realistic exchange rate is crucial. The Fund, by promoting adherence to these policies, either under a Fund program or through the surveillance process, takes the lead and thus catalyzes the flow of balance of payments support from both official and private sources. In this manner, it contributes to establish the conditions in which the Bank's support for investment and policy change can be most effective. In turn, the eventual resolution of the balance of payments difficulties and the resumption of growth in these countries requires a substantial improvement in the efficiency of resource use. The Bank plays a major role in this process, by assisting the country in redirecting public sector expenditure and investment, in rehabilitating state enterprises, in reforming their policies, and in strengthening institutions. As these efforts bear fruit, balance of payments support can be replaced by development finance on appropriate terms, both from the Bank itself and from other sources following the Bank's lead. Nevertheless, given the size of many members' needs at present, the immediate problem is often one of increased provision of balance of payments financing. Care must be taken that this balance of payments assistance supports the Fund in applying the degree of conditionality that the international community considers appropriate. Otherwise the link between balance of payments financing and adjustment can be seriously weakened.

#### IV. Procedures for Fund-Bank Collaboration

Good organization requires a clear assignment of functions and responsibilities. This principle continues to be valid at a time when some convergence of the two organizations' financing roles has taken place. In this connection, it has already been noted that the procedures for collaboration outlined in 1966 remain appropriate. There is, however, a need for continued efforts to ensure that they are implemented properly in present circumstances when many of the issues have become so much more important.

In this context, the examination of experience with Fund-Bank collaboration in the companion report, SM/84/210 (8/27/84), indicates that contacts between the two staffs and managements are frequent and close and that difficulties and conflicts are more the exception than the rule. The two staffs disagree only occasionally in their diagnoses of member countries' problems, and, where differences arise, the ensuing exchange of views has contributed to improve the quality of policy advice

and assistance provided to members. The report also noted that, as regards such matters as training, technical assistance, research and statistics, in the relatively small area of overlap in the two organizations' activities, cooperation was generally close and effective. A few areas have been identified where there is scope for further progress; this requires essentially the better application of existing procedures rather than the establishment of new ones.

A first area where progress can be made concerns cases where staff assessments of policies differ; instances of this sort are bound to emerge from time to time, and the best hope for their resolution continues to be close working relationships and communication between the staffs. Participation of the staff of one organization on missions of the other has proved to be useful in this respect, as have joint missions in certain specific circumstances. The objective of harmonizing diagnoses can also be furthered by regular periodic meetings between the area and regional staffs of the two institutions, supplemented as necessary by contacts between the staffs of functional departments, particularly those charged with collaboration between the two institutions, to sort out issues and ascertain means for their settlement. In this connection, Fund area departments and Bank regional offices have each recently designated an individual staff member to act as formal liaison with the counterpart departments. When conflicts persist, their resolution will continue to need resort to management. But it must be noted here that, while an increase in contacts and reviews can be useful, it is not in itself a panacea.

Another area where improvements can be made relates to instances where the two organizations have given conflicting advice, taken different positions, or duplicated each others' activities. The companion report (SM/84/210) noted that such problems arose occasionally in the areas of trade policy, pricing policy, financial sector studies, and technical assistance in the fiscal area. Here again, the best method to resolve these problems is to strengthen the contact between the two staffs, at the level of the Fund's area departments and the Bank's regional offices, so that each can gain a better understanding of the other's activities and the constraints within which each must work. While work programs and mission schedules are often exchanged, this can be done on a more systematic basis. Mission chiefs should consult their counterparts at an early stage of any discussions and keep them informed on the issues, including proposed covenants and policy conditions, on which positions can often evolve rapidly. The Fund staff should make further efforts to learn of the content of Bank covenants and to keep their counterparts in the Bank informed of the policy content of Fund programs. An initiative that has proved effective in this context, and which should be continued, is the series of periodic seminars where the two staffs of the corresponding area departments and regional offices interact and exchange views.

A third area where problems have sometimes arisen is in the coordination of financial assistance to members. Recently, efforts have been made to increase the coverage of the Bank's activities in Fund reports, thus laying the basis for ensuring that the two organizations' activities are better coordinated. Nevertheless, difficulties still occur from time to time, stemming from the different timing and operational procedures of the two institutions. Problems sometimes arise in coordinating the timing of missions, of programs, and of disbursements, as well as in the timely receipt of policy assessments from the other.

A recurrent difficulty in this area stems from the significantly longer lead time associated with the Bank's activities when compared to the Fund's. The reasons for this include the complexity and number of issues involved at the project and sectoral levels. A major advance would be to synchronize the Bank's investment appraisals with the Fund's negotiations to ensure that the Bank's views on investment priorities are available at the time decisions are made. This could require a more continuous involvement of Bank staff in assessing investment programs in a broader range of countries than is now the case. When there is a need for expenditure cuts, a prompt overall appraisal of the investment program by the Bank could be invaluable to indicate appropriate areas for outlay cuts or to identify where additional sources of financing on suitable terms can be found. A similar issue arises in relation to donor groups; the Bank is the convener of the largest number of donor groups, to which it provides extensive documentation. The presentation by the Bank of its views on a country's investment policies can be crucial to the success of such a meeting, in particular those arranged to induce larger financial flows to close a short-term financing gap. On occasion, the scheduling of a meeting has to be advanced in the context of a Fund-supported program, and the absence of a Bank appraisal can make such a meeting less effective.

These matters have been raised frequently in the Executive Board, but it is not clear that further formalization of procedures for collaboration can achieve much progress in this area. However, there may be scope for expanding the exchange of information between the two organizations, particularly as regards the deliberations of the Executive Boards.

One proposal in this connection is for Bank staff members to attend Fund Executive Board meetings as observers. When this matter was discussed at EBM/70/29-30 (4/10/70), Directors authorized the Managing Director to issue a general invitation to this end; at the time, questions were also raised as to the appropriate degree of reciprocity (whether Fund staff would be invited to attend Bank Board discussions of individual loans), the country coverage (whether the Bank staff would be invited only to meetings on members where it was an active lender, or also on those on whose markets it borrowed or to whom it was contemplating lending), and whether such attendance would inhibit discussion of controversial issues or compromise confidentiality.

Some Directors proposed that the alternative course of making Board minutes available to Bank staff might be preferable, although given the normal interval for finalizing minutes, their impact would be much less than actual attendance.

More recently proposals have been made for Bank staff to participate actively in discussions at the Fund Executive Board and, more specifically, answer Executive Directors' questions on Bank-related matters. This would have the advantage of involving the Bank staff more fully in Fund-supported adjustment programs. However, it does raise a number of delicate issues, one of which relates to the accountability of staff members. The Fund Executive Board can insist that Fund management ensure that the Fund staff be responsive to its needs; it has no corresponding authority over Bank staff. Conversely, Bank staff are responsible to the Bank management and Board, and not to those of the Fund. Related to this issue is that of the determination of the areas where it would be appropriate for a Bank staff member to answer questions in the Fund's Board. While such a staff member might be able to testify as to the intentions of the Bank, it is less clear whether it would be appropriate to answer questions regarding the policies of the member. A Bank staff member might be in a delicate position if the questions he is requested to answer could impair in some fashion relations between the Bank and the member. The proposal also raises issues of reciprocity, and of the possible need for clearance from the Fund Executive Board for any statement to the Bank Board, should Fund staff be invited to participate in their meetings and vice versa. In any case, the real issue is whether the Board would be better served by asking questions of a Bank staff member in such a situation or by insisting that Fund staff be adequately briefed to answer their questions when the Bank's activities impinge on Fund decisions.

In light of the above discussion, the most practical way to improve collaboration in this area might be for the staff, following the conclusion of any Executive Board meeting on a particular country, to prepare and transmit to the Bank staff a note listing all the questions raised in the meeting on development and Bank-related issues and summarizing the associated discussion. Such a note would also include a brief description of the main measures and policy changes that could have an impact on a Fund program but are within the purview of the Bank. Such a system would ensure greater communication between the staffs specifically on issues of concern to Executive Directors, allowing the Fund staff to be more responsive to the requirements of the Board, and could contribute to discussions with the member on an appropriate adjustment program. The Bank staff have, however, indicated that it would be difficult to make this a reciprocal arrangement. However, they believe that there would be no objections to Fund staff attendance at Bank Board meetings whenever structural adjustment loans, and perhaps other loans, are discussed.

The approach suggested above would not necessarily exclude the possibility of Bank staff attending Fund Board meetings as observers. Furthermore, it should be accompanied by continued efforts on the part of the two staffs to maintain close contacts at all times to allow each to adjust its work priorities to respond to the requirements of the other. The Bank staff have sometimes felt that there is not a sufficiently specific indication in advance of the areas in which their appraisals will be required in connection with a Fund program: efforts should be made to indicate to the Bank more precisely those Bank inputs that are likely to be required in the forthcoming period.

#### V. Conclusions

The Fund is responsible for overseeing the observance by members in their international financial relations of the code of conduct outlined in its Articles. More particularly, the Fund has responsibilities to exercise surveillance over the compliance by members with the obligations regarding their exchange arrangements. These are responsibilities that the Fund has to discharge at all times and vis-à-vis all members; they can neither be shared with nor delegated to other international institutions. Those responsibilities are also the basis for the concern and interest of the Fund in members' exchange rate policies, including those in the fiscal, monetary, and foreign borrowing areas. In these areas (where the Bank looks to the Fund for views) as well as in the areas of responsibility of the Bank (where, conversely, the Fund looks to the Bank for views) each institution needs to understand and take account of the concerns of the other.

In fulfilling its mandate and in assisting members in their efforts to attain a viable balance of payments position, the Fund seeks to ensure the establishment of conditions in which the Bank's support of development policies can be effective. In turn, the Bank's efforts to ensure that resources are used efficiently can help the Fund in promoting viable balance of payments positions. The experience of the last decade indicates that, in many instances, balance of payments recovery can be a protracted and difficult process. Consequently, it calls for effective collaboration between the Fund and the Bank to ensure that measures adopted for balance of payments recovery also contribute to the attainment of longer-term structural development and growth objectives. The effectiveness of this collaboration continues to require close cooperation in the areas where institutional responsibilities overlap. Regarding the remaining areas, a clear assignment of roles and functions of the two institutions remains the most desirable arrangement. This process should lead to precise and specific actions by each in its particular area of responsibility and expertise, based on the preservation of the separate roles and distinct identities of the institutions. From the standpoint of adjustment, effective separation and proper discharge of functions and responsibilities will generally prove to be synergetic in character, thus enhancing the complementary nature of the activities of the two institutions in areas of common interest. It will also minimize the problems of cross-conditionality, the drawbacks of which have been stressed by Executive Directors.

The need for coordination to ensure complementarity, while each attaches different conditions to its lending based on the distinction between the economic policy responsibilities of the two institutions, also has implications for the provision of official balance of payments financing. This type of financing calls for precise and effective policy conditions to ensure that any internal policy deficiencies that made such assistance necessary in the first place will be eliminated within a reasonable period of time. The determination of the appropriate mix of balance of payments financing and adjustment is a responsibility of the Fund, and to discharge it, the institution must remain associated with a member's adjustment program while it is experiencing balance of payments problems. Generally speaking, the Fund neither can nor should always provide all the balance of payments support needed by members, particularly those which can adjust only slowly, but it can provide the lead in catalyzing other sources of such balance of payments financing. For the process to work, however, the suppliers of this additional assistance should ensure the required standards of conditionality are safeguarded. In this context, structural adjustment and policy-oriented sector loans by the Bank have often proved their effectiveness in promoting policy improvements in areas complementary to those subject to the Fund's own conditionality, and thus can support adjustment by contributing to ensure that policy improvements, besides being effective, are sustained.

The specification of the primary responsibilities of the Fund and the Bank agreed in 1966 remains valid. Procedures for practical collaboration were also drawn up at that time and reviewed subsequently in 1970 and 1980. In themselves, the procedures also remain generally adequate. The addition of new procedures is unlikely to be helpful as many of the problems that arise are not the result of the procedures themselves but of their implementation. This being said, the experience of recent years points to two main sets of issues on which efforts have to be made to strengthen complementarity.

The first set of issues arises whenever differences in judgments between the two staffs lead to conflicting or inconsistent advice to members. Procedures exist to sort out and resolve those differences, but conflicts nevertheless arise on occasion. These instances, though not numerous, indicate the need for even closer staff contacts, particularly at the levels of the area departments and regional offices through regular meetings to ensure mutual understanding and familiarity with each other's viewpoints, activities and constraints. These can be supplemented by the continuation of the seminar series and by periodic contacts between functional staff to tackle general issues of collaboration. However, staff contacts are unlikely to resolve all problems, and occasions will continue to arise where resort to management will be required.

The second set of issues arises from the different modus operandi of each institution, in particular the respective pace of its activities. The Fund is normally able to respond to a member's need for financing

at a faster pace than the Bank. Because of the nature of its lending operations, the Bank takes longer to put its assistance in place, although it has taken steps in some countries to change the focus of its lending to include a larger proportion of quick-disbursing loans. Difficulties have also arisen regarding the timing of the provision of investment and other policy appraisals, which are particularly required, for example, when the need for expenditure cuts arises and when the scheduling of donor group meetings is advanced in the context of a Fund-supported program. Views are often expressed at the Fund's Executive Board on these and other subjects of interest to the Bank which could be usefully relayed to its staff and form a basis for discussions with the member. Proposals for staff attendance at and/or participation in the Board meetings of the other could be considered in this context. It could also be helpful for the Fund staff to provide the Bank staff with more specific indications of the countries and areas in which Bank-related inputs might be needed in the forthcoming period, in order to assist in determining staffing and other priorities.

Attachment: EBD/80/161

The Purposes of the Fund and the Bank

The purposes of the Fund are:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems;

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy;

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation;

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade;

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity;

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members. (Article I)

In addition, Article IV, Section 3:1 states:

The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article. [i.e., Article IV]

And Article XV, Section 1 adds:

To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights to members that are participants in the Special Drawing Rights Department.

The purposes of the Bank are:

(i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries;

(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources;

(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories;

(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first;

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy. (Article 1)

The purposes of IDA are to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world included within the Association's membership, in particular by providing finance to meet their important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the International Bank for Reconstruction and Development and supplementing its activities. (Article 1)

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE**

EBD/80/161

June 9, 1980

To: Members of the Executive Board

From: The Secretary

Subject: Fund Collaboration with the Bank in Assisting  
Member Countries

There is attached for the information of Executive Directors, the Managing Director's memorandum to heads of departments, bureaus, and offices, dated June 9, 1980, on Fund collaboration with the Bank in assisting member countries.

Att: (1)

Other Distribution:  
Department Heads





# Office Memorandum

TO : Heads of Departments, Bureaus, and Offices

DATE: June 9, 1980

FROM : The Managing Director *Laosine*

SUBJECT : Fund Collaboration with the Bank  
in Assisting Member Countries

1. On May 28, the Executive Board had a very interesting discussion of my statement (Attachment A) on Fund collaboration with the Bank in assisting member countries. As you will see from the summing up (Attachment B) of this meeting there was a very large degree of Board support and agreement with the conception of collaboration described in my statement. In stressing the need for close collaboration between the Fund and the Bank, members of the Board emphasized that the importance of achieving effective collaboration is even greater today because the world is changing and the nature of the problems require this evolution. The Bank is moving toward structural adjustment and some form of balance of payments loans. It had already moved in that direction with program lending and it is now moving in a more comprehensive way. The Fund is also moving to deal with certain types of structural problems, including longer periods of adjustment, and is becoming more interested in the supply side aspects of members' economies. Thus, the issue of collaboration is of great practical significance.

2. The Board fully supported my view that the two institutions have, and should continue to have, separate characteristics, functions, and responsibilities. In practical terms, this means that when we assist a member country in devising a program, we should bear in mind that the fundamental characteristic of the Fund and the aim of its programs is to assist member countries in adjusting and financing balance of payments needs. The fundamental policy instruments, which are used in formulating a program, should be related to the specific characteristics of the organization concerned. There is broad agreement that for the Fund the main policy instruments to be used are those which focus on macroeconomic objectives.

3. This renewed emphasis on separate characteristics and functions does not mean that each institution should go its own way without reference to the other. On the contrary, members of the Board stressed the importance of "complementary" relationships between the programs of the Fund and the Bank. Both institutions have to move and to pull in the same direction, which is the direction of the well-being of our members; this is written very clearly in our respective charters. This drive for complementary programs will require very close collaboration at all levels—at the level of the staff, at the level of the management, and at the level of the Boards. Our aim should be not merely to avoid conflicts but rather to achieve effective collaboration in such a manner as to be of maximum assistance to member countries.

4. The Board has accepted my view that the 1970 understandings (Attachment C) on collaboration with the Bank continue to be basically followed and applicable to current circumstances. In view of the time that has elapsed since these basic understandings were formulated, it would be useful to bring them to the attention of the staff members in your department. In particular, I wish to stress my personal support for the following points:

(a) Before its departure, a Fund mission (especially if it is concerned with possible use of Fund resources in the upper credit tranches, including the extended facility) should have a thorough discussion with the appropriate Bank area department of the country's economic situation and prospects, and of the important policy issues.

(b) Wherever appropriate, and especially if the Bank is contemplating a loan for structural adjustment, you may wish to provide for the participation of a Bank staff member in a Fund mission, or alternatively, for participation of a Fund staff member in a Bank mission; the national authorities should be consulted on such participation.

(c) After such Fund missions return, they should give a frank debriefing to the Bank staff. If tentative agreement has been reached on a draft letter of intent, a copy will be given to the Bank staff.

(d) While it is difficult in practice to arrange for advance comments on drafts of staff reports on all consultation discussions, it will be important for the Fund mission chief to give his opposite number in the Bank an opportunity to comment on the draft of papers supporting the use of Fund resources in the upper credit tranches, including the extended facility. As described in the 1970 understandings, Bank staff will be asked to provide any comments within the same number of working days (usually two) as the Fund departments; it is expected that Bank staff observations will focus on major issues on which there appear to be inconsistent evaluations or policy views by the two institutions.

(e) Each such Fund paper should contain a description of the country's financial relationships with the Bank. In addition to providing information on other forms of Bank lending, the staff should inform the Board of the status of structural adjustment lending for the particular country.

(f) After issuance to the Board, Fund documents should be promptly transmitted to the Bank. Therefore, our Secretary's Department will send to the Secretary's Department of the Bank three copies of all Fund consultations and use of resources documents.

5. I am confident that each of you, and your associates, will give this general subject the continuing, serious attention that it deserves. If you anticipate that there may be possible differences of evaluation or policy advice which may warrant discussion with the management of the Bank, I expect that you will promptly alert me to such possibilities.

6. The Bank management is issuing parallel instructions to the Bank staff regarding responsibility for effective professional collaboration with the Fund staff. A copy of that memorandum is attached (Attachment D) for your information.

Attachments: A. Buff 80/103, May 15, 1980  
B. Buff 80/114, June 2, 1980  
C. Fund/Bank Collaboration, February 19, 1970 (EBD/70/38),  
together with its attachments  
D. Bank memorandum on "Structural Adjustment Lending—Collaboration  
with the Fund," June 9, 1980

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE**

May 15, 1980 - 80/103

Statement by the Managing Director  
on Fund Collaboration with the Bank  
in Assisting Member Countries  
Executive Board Meeting  
May 28, 1980

1. During the Board discussion on the paper on "Fund Financing and the Increasing Payments Imbalances" (EBM/80/51, March 19, 1980), several Executive Directors referred to the basic understandings (EBD/70/38, February 19, 1970) regarding collaboration between the Fund and the Bank in assisting member countries. Since that meeting, the basic understandings regarding collaboration have been reviewed by the managements of the two institutions. The Bank management has issued a new paper on "Structural Adjustment Lending" which will be discussed by the Executive Board of the Bank on May 22, 1980; this paper, which includes a number of references to collaboration between the two institutions, will be circulated for the information of the members of the Executive Board of the Fund.
2. Against this background, I suggest that it would be timely for us to have an exchange of views on this important topic. At the outset, I wish to emphasize my personal, strong support for close, effective collaboration between the Fund and the Bank. The importance of achieving such collaboration has increased, taking into account the Bank's intentions to assist member countries with structural adjustment lending.
3. During the March 19 meeting, a number of Directors emphasized that the Fund and the Bank have separate identities and responsibilities and that there are significant differences in the purposes and functions of the two institutions. I very much agree with this point of view. The fundamental characteristic of the Fund rests not in any limited focus on economic problems of a short-term nature but rather in our concern with, and competence in, assisting member countries in carrying out programs of balance of payments adjustment. In broad terms, it has long been agreed that the Fund has responsibility for policies relating to balance of payments adjustment and that the Bank has responsibility for the composition and appropriateness of development programs and project evaluation, including development priorities. The Fund is guided by the Bank on development matters and the Bank is guided by the Fund on balance of payments adjustment policies. While obviously a close collaboration between the two institutions is necessary to ensure coordinated action and to avoid conflicting advice to members, it will continue to be important to maintain the distinct character and functions of each institution. For example, it is my understanding that if the Bank were to consider that a country's program of structural adjustment should include a medium-term target for the current account of the balance of payments, the Bank would look to the Fund to develop such a target in close consultation with the national authorities.

4. Questions were raised in the March 19 meeting regarding the additional emphasis of the Fund on the supply side of economies. I would note that many aspects of the economic policies normally included in balance of payments adjustment programs supported by the Fund have substantial effects on the longer term development evolution of the country concerned. Policies with macroeconomic effects (such as those relating to monetary, fiscal, foreign borrowing, exchange and incomes policies) are of key importance because they can have a direct bearing on aggregate trends in savings and investment and thus influence the overall orientation of efforts to encourage sustainable economic growth. Therefore, due attention is given to supply-related considerations such as export promotion policies which have a direct influence on a balance of payments adjustment program supported by the use of Fund resources; the success of such a program often will depend on eliciting an adequate response from the supply side of the economy. During the March 19 discussion, many Directors stressed the role to be played by energy policies, including pricing, the development of alternative sources of energy, and energy conservation; I share these views.

5. Consistent with the guidelines on conditionality for the use of Fund resources, it is understood that our performance criteria will normally be limited to macroeconomic variables relating to monetary, fiscal, foreign borrowing and exchange policies. We should continue to look to the Bank for views on development priorities as reflected in the size and composition of the investment program, recurrent outlays, the efficiency of resource use, and individual pricing decisions. Within this broad framework, I see ample scope for full and effective collaboration with the Bank with respect to promoting an improvement in supply conditions. As stated in my summing up of the March 19 discussion, this greater emphasis on the supply side of economies in no way alters the need for balance of payments adjustment to include an appropriate emphasis on policies of demand management.

6. As you know, the Interim Committee agreed that the Fund should stand ready to play a growing role in the adjustment and financing of prospective large and widespread payments imbalances. Given the structural nature of many of these imbalances, the Fund must stand ready to provide larger amounts of assistance and support adjustment efforts during longer periods than in the past. In practice our lending must reflect the sort of flexibility, with an awareness of the circumstances of members, that is called for in the Executive Board's current guidelines on conditionality. Additional emphasis needs to be placed on policies relating to the supply side of the economy. In this and other matters, close collaboration between the Fund and the Bank is essential. To assist our work in this important area, I have asked the staff to prepare a paper on "Fund Policies for Adjustment Under Current Conditions," which will be discussed in mid-July.

7. After reviewing the existing understandings on collaboration with the Bank, I believe that they continue to be basically valid and applicable to current circumstances and therefore there is no need for any formal revision. As you will note from the Bank paper on "Structural Adjustment Lending," this view is shared by the Bank management. However, our review did suggest that, with the passage of time and with changes in personnel, there is a need to give renewed emphasis to certain points. Therefore, after completion of our exchange of views on Fund-Bank collaboration, I intend to stress to the area and other departments that it will be necessary to give special attention to certain key points stated in the basic understandings; these include exchange of substantive views, exchange of documents, and arrangements for participation of staff members in each other's missions. In my view, it continues to be essential that the Bank and the Fund avoid giving different analyses or policy advice to member countries. I will request the Fund area department heads to alert me to any possible conflicts of view so that, as appropriate, specific issues may be resolved promptly with the Bank management.

8. I look forward to hearing your views on this important topic.



## DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

June 2, 1980 - 80/114

The Chairman's Summing Up at the Conclusion of  
the Discussion on Fund Collaboration with the  
Bank in Assisting Member Countries  
Executive Board Meeting 80/84 - May 28, 1980

I think there has been a very large degree of support for the concept of collaboration put forward in my statement. On the substance--on which I will touch, first, very briefly--I note three main points:

The first is that the Board has stressed the importance of a close collaboration between the Fund and the Bank. This, you have noted, is not a new topic: there has been collaboration between these two institutions for a very long time. But the importance of intensifying and ameliorating it is certainly present in our minds now, if only because both the Fund and the Bank are moving somewhat beyond their customary practices. They are doing so because the world is changing and circumstances demand this increase in activity in both institutions. The Bank has been moving toward structural adjustment and some form of balance of payments loans for quite a long time with its program lending; but it is doing so in a more structured way now. The Fund is also moving toward helping countries to tackle structural problems by offering longer adjustment times and is becoming more interested in the supply aspects of countries' economies. In other words, collaboration is a matter of immediate concern.

The second point that was clearly stressed is that the two institutions have and should continue to have separate characteristics, functions, and responsibilities. This specificity is not only dictated by our charters; it is also the source of our strength and of the quality of our inputs in our work for our members. The general feeling is that it should continue to be reflected in the way that the programs of the Bank and of the Fund are devised. This means that in working out a Fund program we should always have in mind that the very purpose of the Fund is to assist member countries in adjusting their economies and financing their balance of payments needs. And I think that the fundamental purpose of the Bank's structural programs is to address what Mr. Kharmawan called the "real sphere" of the economy--that is, the structure of the economy--for instance, the importance of agriculture or industry, of import substitution or export promotions, or the development of energy projects.

If we accept the premise that each institution should keep its original thrust in working toward its goals and in establishing its programs, it follows that the fundamental policy tools to be adopted in any given program should also be related to the specific purposes of each organization. As far as the Fund is concerned, you all seem to agree that our main tools should continue to be the establishment of macroeconomic objectives and relationships. This does of course not mean that we should not resort to other tools or indicators of economic policy; we know that sometimes we have to look at the supply side of the picture.

I appreciate Mr. Laske's observation that in moving toward a rather more comprehensive conception of the structural difficulties of a country, we have in some cases to look at other indicators that are not purely macro-economic; but I think that we have to do so in relation to a balance of payments adjustment program. As far as the Bank is concerned, I believe that the tools it uses in a structural adjustment program will be focused mainly on the investment and production aspects of the economy.

The third point is that adherence to the specific nature of the two institutions does not mean that each of them should go its own way. On the contrary, programs should be complementary, and I think "complementary" is one of the key words of the present discussion. The Fund and the Bank have to pull in the same direction, which is toward the well-being of our members, as is clearly written in our charters. Pulling in the same direction and having complementary and consistent programs will require very close collaboration at all levels--staff, management, and Boards--starting from the very assessment or diagnosis of the situation. When the Fund and the Bank go to a country we should try to understand its problems in the same way, because the diagnosis should be the same. The agencies should put their fingers on the most important of the country's economic troubles or difficulties, the ones for which it really needs a cure.

The two institutions must also be consistent insofar as the composition of their programs is concerned. Although the Fund should pay attention to the supply side of the economy, I do not believe that it should embark, for instance, on selecting investments or making judgments on an investment program or the composition of an energy project. Such matters are not within the Fund's competence, nor do we have the necessary expertise. We shall not take on additional staff to make that sort of analysis, which is really a matter for the World Bank. But what we do have to do when we go to a country that has a structural problem is to know the views of the Bank on the physical components of the economy. What we should be in a position to do is to develop a balance of payments program that is generally consistent with the policies adopted in connection with a structural adjustment program in the Bank. And what we prescribe for the use of a country's resources, for its fiscal policy, monetary tools or pricing system should be consistent with the main objectives of the structural adjustment policy. In other words, any suggestions we may offer on directing resources toward investment as opposed to consumption should be consistent with the financial implications of an investment or structural adjustment program in the Bank. We should not allow the two institutions to develop structural adjustment programs or balance of payments and stabilization programs that do not properly mesh together.

So much for substance.

As far as procedure is concerned, most Executive Directors have, at least for now, accepted the pragmatic approach set out in my statement, namely, that we should apply fully the existing agreement between the Bank and the Fund on collaboration between staffs. So this will be done.

I shall shortly issue instructions to the staff reflecting what we have said today and slightly expanding my statement. As Mr. Anson said, it is not only important to have good instructions; it is also important to refresh people's memories from time to time. I shall pursue this matter with the full weight of my authority. We have to work for collaboration that is not only mechanical--that is, sending documents from one institution to the other at the right time--but really positive, meaning that we must try to build up something together and not just avoid conflicts. This is the way in which I have always understood collaboration, and I think that the staff of the Fund is thoroughly committed to this idea.

Mr. Casey and a number of Executive Directors suggested that in writing country reports the staff should include in the section on the use of Fund resources a paragraph or two explaining what the Bank has been doing in the country concerned, especially when the country has a structural adjustment program or when the Bank is working on one. The staff should be in a position to say what it can on this topic.

I have also noted Mr. Kharmawan's views on collaboration between the two institutions in connection with the work of aid consortia or consultative groups. This is a starting point from which to expand our collaboration; and I understand that Executive Directors feel that we should review the procedure for collaboration around the end of the year in the light of experience during the next few months to see whether we are on the right track.

I also thank Mr. Amuzegar and Mr. Yeganeh for their imaginative paper. As Mr. Yeganeh has noted, there is no unanimity of view on their far-reaching proposal, at least for the moment. I understand that they did not intend to recommend the creation of any new institution but rather the establishment of systematic and more organic collaboration between the Fund and the Bank, and that is something that will certainly be the object of further study and consideration.

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100  
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DOCUMENT OF INTERNATIONAL MONETARY FUND  
AND NOT FOR PUBLIC USE

ATTACHMENT C

**FOR  
AGENDA**

EBD/70/38

February 19, 1970

To: Members of the Executive Board

From: The Secretary

Subject: Fund/Bank Collaboration

There is attached a proposal by the Managing Director on "Further Steps for Collaboration between the IMF and the IBRD" (Attachment A) which it is intended will be placed on the agenda for an early Executive Board Meeting. The proposed joint memorandum by the Managing Director and the President of the Bank has resulted from long and careful consideration, with officers of the Bank, of how the general agreement for close collaboration could be further implemented. It has been agreed with Mr. McNamara. The Managing Director also proposes that in the future the Bank be invited to send a staff member as an observer to attend Fund Board discussions on staff reports on missions relating to consultations and use of Fund resources.

There are attached for the convenience of the Executive Directors copies of two memoranda issued in 1966 (Attachments B and C) relating to Fund/Bank collaboration. The first (EBD/66/9, Revision 1) was approved by the Executive Board in February 1966. Together with the second (unnumbered Secretary's note of December 13, 1966) it provides the basis for the understandings referred to in the attached joint memorandum.

The following draft decisions are submitted for consideration by the Executive Board:

1. The Executive Board approves the broad procedures for further collaboration with the International Bank for Reconstruction and Development as set forth in EBD/70/38.
2. The Executive Board authorizes the issuance of a general invitation to the International Bank for Reconstruction and Development to send a staff member as an observer to attend Fund Board discussions on staff reports on missions relating to Article VIII and Article XIV consultations with members and use of Fund resources.

Att: (3)

Other Distribution:  
Department Heads  
Division Chiefs

11  
12  
13



Joint Memorandum by the Managing Director of the IMF  
and the President of the IBRD

Further Steps for Collaboration between the IMF and the IBRD

Introduction

Since late in 1966, procedures for cooperation between the staffs of the Fund and the Bank have been guided by a memorandum of agreement between the Managing Director of the Fund and the President of the Bank. A recent review undertaken by the staffs of the two institutions has shown that effective collaboration has increased and is considered of mutual benefit. It is clear that the 1966 understandings have served the interests of the organizations and their member countries and continue to be valid as the basis for future cooperation.

Since 1966, practices have evolved, and are still evolving, that should be more widely known in the two institutions and more uniformly observed by the departments concerned. Extension of these practices would be particularly timely in view of the decision of both organizations to increase their mission activities substantially. The aim will continue to be for the Fund and the Bank to complement each other as they work to achieve their common objectives, for each to make the fullest possible use of the expertise and information of the other, to reduce to a minimum the risk of inconsistent policy advice, and to minimize duplication of requests for information to member governments.

Methods of Collaboration at Headquarters

Before missions depart<sup>1/</sup>

In most cases it is now the practice, before Fund missions or Bank economic missions depart, for a discussion of the principal policy problems to take place between the staffs of the two institutions. In the future, the following practice should be consistently observed: each Fund mission, prior to departure, will be in touch with the appropriate area department of the Bank for a thorough discussion of the country's situation and of the important issues; and, conversely, each Bank economic mission before departure will be in touch with the appropriate area department of the Fund. The staff of each institution will seek the views of the other on all points of common interest, including those which may be the subject of discussion with the Fund regarding use of resources or which may be discussed in connection with proposals for Bank or IDA financing.

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<sup>1/</sup> Throughout this memorandum, the missions referred to are those which are sent to the same countries by both the Fund and the Bank. These are consultation and use of Fund resources missions in the case of the Fund and economic (rather than project identification, appraisal or supervision) missions in the case of the Bank.

After missions return

Recent practice frequently includes oral debriefing by Fund staff to Bank staff, and by Bank staff to Fund staff, immediately after a mission's return. This practice will now be generalized to include such debriefings by all Fund missions and all Bank economic missions. This will provide an additional means for the staff of each institution to keep currently informed on developments in the member country and provide an opportunity for bringing to the surface any substantial difference of evaluation or approach which may exist.

With the agreement of the member country concerned, greater use will also be made of the technique of providing both staffs with basic data provided by the member to either organization; the aim should be to reduce the burden on officials of the member country caused by duplication of requests for basic information. Efforts will also be increased to use common definitions and series in the statistics of Fund and Bank reports.

Circulation of draft documents

Members of the Fund staff regularly receive Bank economic reports in draft, and participate actively in the meetings of the Bank's Economic Committee at which the policy questions raised by these reports are discussed. In the future each Fund area department will send its draft reports to the Bank staff at the same time that these drafts are sent for comment to the other departments of the Fund. In order to avoid any undue delay in the issuance of Fund documents, Bank staff will be asked to provide any comments within the same number of working days (usually two) as the Fund departments; it is expected that Bank staff observations will focus on major issues on which there appear to be inconsistent evaluations or policy views by the two institutions.

Technical assistance

Many of the technical assistance activities of the Fund and the Bank relate to the special responsibilities of the two organizations and present only incidental problems of coordination. This is true, for example, of Fund advice on simplification of exchange systems, central banking and balance of payments statistics, and of Bank advice on development strategy and programs. In the field of tax policy and fiscal administration, where both institutions have important interests but where in practice the Bank does not offer technical assistance, special working arrangements have been developed. The Fiscal Affairs Department of the Fund keeps the Bank staff informed of technical assistance requests received and of plans for responding to them. Discussions are regularly held with Bank staff during briefings and debriefings of staff members and panel members on technical assistance assignments. Contacts are normally made through the Bank's Economics Department.

Exchange of final documents

After Fund documents are submitted to the Executive Board for consideration, present practice provides for transmittal of such documents on an ad hoc basis to area departments of the Bank. In the future, each area department of the Fund regularly will send to the area department of the Bank two copies of each Fund consultation and use of resources document. Bank economic reports will continue to be sent by the Bank to the Fund on a routine basis.

Collaboration in the FieldTiming of missions

On some occasions in the past, the timing of Fund and Bank missions to a country has been arranged so that their visits overlap. Assuming that there is agreement with the country concerned, such parallel missions can be of considerable benefit; they can provide for exchange of data and other information between the two missions, can afford an opportunity for an exchange of views and can reduce the burden on the host government, for example, by enabling both missions to obtain government views and information at the same time on matters of mutual interest. Every effort should be made to increase the number of overlapping or parallel missions to the greatest practicable extent. To this end, the responsible departments of each organization will, before drawing up mission schedules, consult with the corresponding staff in the other organization.

Resident missions

Resident missions should be guided by the same principles as those set forth for collaboration at headquarters. Where both institutions have a resident mission in the same country, a resident mission will discuss its views with the other mission before taking a position on any subject of significance. Where one organization has a resident mission but the other does not, a visiting mission from the latter institution will be in touch with the resident mission of the other on arrival and will remain in contact during its stay.

Exchange of staff

Staff members of the Bank have on numerous occasions participated in Fund missions and this practice will be continued. Staff members of the Fund (especially from the Fiscal Affairs Department) have participated in Bank missions. While staff limitations will continue to govern the number of Fund staff who can participate in Bank missions, every effort will be made to make Fund staff available for analyzing selected issues whenever this would be to the mutual interests of the two institutions.

Economizing Staff Resources

The staffs of the two institutions have discussed various approaches designed to make better use of the special staff talents in both institutions so as to improve their basic economic reports. There is common agreement on the desirability of having one institution cover a particular sector or topic within its special competence in such manner as to meet the needs of the other institution. Thus, for example, the section of a larger report prepared by the staff of one organization would be incorporated (either directly or in a more summary manner) in the economic report of the other. It is expected that the section so incorporated would normally be essentially factual and analytical in character; it would not generally contain policy conclusions, except as a result of previously agreed terms of reference.

The extent of operations under this experimental program will be determined by the initiative and common decision of the appropriate area departments. For example, if the Fund staff is to prepare a section on monetary and credit developments for use by both organizations, it will be necessary at the outset for the Fund staff to agree with the Bank staff on the scope of the section so as to ensure that the final product will meet any specialized needs of the Bank which might not otherwise be covered in the analytical section of the Fund report.

Pearson Commission Recommendation

The Pearson Commission recommended "that the World Bank and the IMF, in countries where both operate, adopt procedures for preparing unified country assessments and assuring consistent policy advice" (Commission Report, p.230). As this memorandum indicates, both organizations will make every effort to avoid duplication of activities and to assure that their appraisals of, and policy recommendations to, each country are broadly consistent.

EBD/66/9  
Revision 1

February 18, 1966

To: Members of the Executive Board  
From: The Secretary  
Subject: Further Steps for Fund/Bank Collaboration

It will be recalled that when the Executive Board discussed the memorandum on "Further Steps for Fund/Bank Collaboration" at Meetings 66/8 and 66/9, February 9 and 14, the paper was agreed subject to minor revisions in paragraphs 2 and 6. The Secretary has been informed that the Bank Executive Board considered and approved the paper, including the amendments referred to above, on February 17, 1966.

The paper as agreed is attached for the records of the Executive Directors.

Att: (1)

Other Distribution:  
Department Heads  
Division Chiefs

January 19, 1966

FURTHER STEPS FOR COLLABORATION WITH THE IBRDIntroduction

The Fund and the Bank have cooperated closely on a large number of matters, and the need for close collaboration can be expected to increase. With expanding knowledge of and experience with members, each institution will have more interest in the implications which its work might have for the work of the other. Proposals for improving collaboration between the Fund and the Bank are therefore timely. The objective--besides the obvious advantages to be achieved by avoiding duplication of work, both within the two institutions and on the part of member governments in their dealings with the Bank and the Fund--should be to ensure that member countries are receiving advice which is broadly based and consistent.

Basis for Collaboration

The President of the Bank and I have therefore reviewed the basis for collaboration and have considered ways in which collaboration may be extended.

1. Existing instructions call for the two staffs to maintain a close and continuous contact at all levels. These contacts are designed to provide the opportunity to exchange (a) information of a factual nature; (b) plans for sending missions; and (c) views on countries. The objective is to achieve consistency of information and viewpoint at the staff level. Extensive day-to-day cooperation is already in effect between the area departments, and arrangements are being initiated to invite Fund area economists from time to time to meetings of the Bank Economic Committee when countries or regions in which they are interested are to be reviewed.

2. Each institution will continue in its reports to take account of matters which are of primary concern to the other institution. The staff of each institution attempts to the maximum degree to obtain basic information on matters which are of primary concern to the other institution from the other institution so as to minimize duplication of requests to the member, and in dealing with these matters, each institution will seek to avoid making or implying evaluations inconsistent with what is acceptable to the other in discussions with member countries or in documents which will reach them.

Methods of Collaboration in the Field

3. Each institution will be receptive to a request from the other to have a staff member(s) accompany a mission as observer(s), provided that the member country concerned agrees. The observer would attend sessions with officials of the member country, subject to determination by the chief of mission, to whom he would be responsible during the mission. The observer would be free to establish other contacts independently of the mission relating to matters of special interest to his own institution.

He would not share any responsibility for the preparation or content of the mission report. It is recognized that, in view of the close and frequent contacts maintained by both institutions with their members, it is not likely that either will frequently request attachment of an observer to a mission initiated by the other, but where the arrangement would result in significant advantage it will be encouraged.

4. In some cases it may prove appropriate and desirable, subject to the agreement of the country concerned, to have parallel missions of both institutions in the same country at the same time. In such cases, each mission would collaborate with the other, to the maximum extent feasible. They would participate in joint sessions with officials of the member country wherever this seemed useful, although it is recognized that much of the time each mission would have to have separate sessions with the government officials particularly concerned with matters covered by its terms of reference. The report of each mission would be prepared within its own institution and when completed would be made available to the other institution under existing procedures. Any further distribution would be made only with the consent of the originating institution. Either institution may reserve the right to indicate that some or all of the contents of its report should be treated as confidential.

5. In lieu of parallel missions, on occasion a staff member(s) of one institution may accompany a mission initiated by the other institution to work on agreed sections of the terms of reference of the mission. The day-to-day activities of such staff member(s) would be subject to the broad needs of the mission as determined by its chief. But the sections prepared by such staff member(s) would be dealt with in the same way as the report of a parallel mission as set out in paragraph 4.

6. In some cases, it may prove desirable and feasible--particularly where an essentially technical contribution is expected--to make arrangements for one or more staff members of one institution to be more completely integrated into a mission of the other institution. In such cases, the seconded staff member would be responsible to the head of the mission and his work would not be subject to review by his own institution. He would, however, be free to discuss his work with other staff members of his institution and the mission report and pertinent documents may be made available to the officers and staff of both institutions before being issued in final form. Arrangements for collaboration of this kind would be worked out in advance, on a case-by-case basis.

#### Future Collaboration

7. We intend to keep under review the implementation of the broad principles set forth above in order to assure the maximum practicable cooperation. In specific areas of growing importance, such as the conduct of consultative groups, the problems related to indebtedness of developing countries, and training activities, procedures for coordinated action are currently under discussion and work in this direction will be continued.

December 13, 1966

To: Members of the Executive Board  
From: The Secretary  
Subject: Fund-Bank Collaboration

The attached memorandum on this subject was sent to Department Heads under the covering note from the Managing Director which is also attached.

December 13, 1966

To: Department Heads  
From: The Managing Director  
Subject: Fund-Bank Collaboration

You are aware of the discussions that have taken place in the Fund, and with IBRD personnel, following the Executive Board's approval of the broad principles embodied in the memorandum of January 19, 1966, "Further Steps for Fund-Bank Collaboration." The attached memorandum represents the results of those discussions. It should be considered by all staff members as the basis for proceeding with future work involving collaboration with the Bank.

Att: (1)

MEMORANDUM ON FUND-BANK COLLABORATION

1. The memorandum of January 19, 1966, "Further Steps for Fund/Bank Collaboration," sets forth the basis for collaboration between the Bank and the Fund in certain areas. It relates particularly to the machinery of collaboration with special reference to missions and exchange of staff.

2. The present memorandum is designed to assure, to the greatest extent feasible, a consistent view by both organizations on economic policy matters in connection with individual member countries, and deals particularly with the problem of avoiding unintended conflict or overlapping which might lead to contradictory or inconsistent advice to such countries. The issuance of this memorandum should not be taken to imply that the methods of collaboration here described have not been generally observed in the past. On the contrary, despite some instances of divergence of views, there has clearly been a growing range of collaboration. Nor is the purpose of the memorandum to attempt to draw sharp lines of jurisdiction between all activities of the two institutions. The purpose of the memorandum is rather to emphasize how large is the area of common interest, requiring full and continuous contact, and to provide guidance to the greatly enlarged professional staffs of the two institutions on some matters which, when the conduct of their respective affairs was in fewer hands, could be assumed to be part of the common understanding of the senior officials of both.

3. Both institutions are concerned with the economic and financial structure and progress of their members. In the final analysis, there is no aspect of that structure or progress of which either institution can afford to be ignorant or which is irrelevant to its efforts to assist the member. While there are some matters clearly within the area of primary responsibility of one or the other of the two institutions as to which views should be expressed to members only by or with the consent of that institution, there is a much broader range of matters concerning which each institution has responsibilities. As to matters within this range, it is important that the views of both institutions, if divergent, be reconciled to the greatest extent possible. To this end, staff members of both institutions should be guided by the following paragraphs.

4. As between the two institutions, the Bank is recognized as having primary responsibility for the composition and appropriateness of development programs and project evaluation, including development priorities. On those matters, the Fund, and particularly the field missions of the Fund, should inform themselves of the established views and positions of the Bank and adopt those views as a working basis for their own work. This does not preclude discussions between the Bank and the Fund as to those matters, but it does mean that the Fund (and Fund missions) will not engage in a critical review of those matters with member countries unless it is done with the prior consent of the Bank.

5. As between the two institutions, the Fund is recognized as having primary responsibility for exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria and for evaluating

and assisting members to work out stabilization programs as a sound basis for economic advance. On these matters, the Bank, and particularly the field missions of the Bank, should inform themselves of the established views and positions of the Fund and adopt those views as a working basis for their own work. This does not preclude discussion between the Bank and the Fund as to those matters but it does mean that the Bank (and Bank missions) will not engage in a critical review of those matters with member countries unless it is done with the prior consent of the Fund.

6. In between these two clear-cut areas of responsibility of the Bank and the Fund, respectively, there is the broad range of matters which are of interest to both institutions. This range includes such matters as the structure and functioning of financial institutions, the adequacy of money and capital markets, the actual and potential capacity of a member country to generate domestic savings, the financial implications of economic development programs both for the internal financial position of a country and for its external situation, foreign debt problems, and so on. In connection with all such matters, efforts should be made to avoid conflicting views and judgments, through continuing close working relations between the respective area departments and other means. In particular, field missions of each institution should acquaint themselves with the views and judgments of the other institution prior to departure. Returning missions should also arrange for frank discussions between staff members of the two institutions, especially where there may be reason to believe that differing views have emerged or may emerge.

7. It is not to be expected that there can be full uniformity of views or judgments in the broad area of overlapping interest, but the practical aim should be to share knowledge and judgment so as to reduce to a minimum the risk of significantly differing views or conclusions.



## OFFICE MEMORANDUM

TO: Regional Vice Presidents

FROM: Ernest Stern, Vice President, Operations

SUBJECT: Structural Adjustment Lending - Collaboration with the IMF

DATE: June 9, 1980

1. During the Board discussions on lending for structural adjustment on March 18 and May 22, 1980 <sup>1/</sup>, Executive Directors emphasized the importance of an effective and appropriate professional collaboration between the staffs of the Bank and the Fund. We were asked to review, in consultation with the Management of the Fund, the memorandum of 1970, which set out the procedures for collaboration between the staffs of the Bank and the Fund. This review has now been completed. We believe that the principles in that memorandum continue to be valid and applicable to current circumstances, but the initiation of lending for structural adjustment makes it timely to reiterate the importance we attach to effective collaboration.
2. We share the view of the Board that as the Bank and the Fund continue to introduce new ways of assisting their member countries in coping with the very difficult economic conditions which exist and which are in prospect, an effective working relationship between the staffs of the Bank and the Fund is essential. We must not only avoid giving conflicting policy prescriptions to member countries but we must ensure that the timing of our work and consultations are coordinated.
3. The Bank and Fund have separate identities and responsibilities and there are differences in the purposes, the functions and the focus of the two institutions. We must be aware of the respective areas of primary responsibility.
4. The performance criteria of the Fund are normally limited to macro-economic variables relating to monetary, fiscal, foreign borrowing and exchange policies. The Bank normally focuses on development priorities, the composition and appropriateness of the investment and related expenditure programs, the efficiency of resource use, individual pricing decision and project evaluation. Inevitably some of these areas impinge on each other. Supply considerations and long-run development programs in such areas as energy are crucial determinants of eventual balance of payments adjustments. Conversely, budgetary management and taxation policy are important determinants of the availability of resources for recurrent or investment expenditures. Despite such interrelationships, we believe there is ample scope for each institution to pursue its primary objective of assisting its member countries with the tools available to it.

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<sup>1/</sup> "Lending for Structural Adjustment", (R80-17, IDA R/80-22, dated February 5, 1980; and R80-122, IDA R/80-83, dated May 9, 1980).

5. I would appreciate it if you would bring to the attention of your staff the importance of an effective professional collaboration with the Fund staff and the following points which will help to implement this collaboration and are of particular relevance to structural adjustment lending:

- (a) Before its departure, a Bank economic mission should have a thorough discussion with appropriate Fund staff of the issues paper or the terms of reference which it has prepared.
- (b) In the case of a country for which lending for structural adjustment is being considered, discussions should take place with Fund staff at an early stage so that their views on the economic prospects and important policy issues are known, as well as the status of any Fund discussions, before tentative proposals are formulated.
- (c) Wherever appropriate, and particularly for those countries for which the Bank is proposing structural adjustment lending, consideration should be given to the participation of Bank staff in a Fund mission or, alternatively, of Fund staff in a Bank mission. The national authorities should be consulted on such participation.
- (d) After the return of a Bank economic mission, a frank debriefing should be given to Fund staff and also a copy of the mission's back-to-office report.
- (e) Copies of the draft reports of Bank economic missions should be sent to the Fund for comment.
- (f) In the case of countries for which proposals are being prepared for structural adjustment lending, draft copies of the President's Report and of other relevant documents, including the draft Letter on Development Policies, should be sent to the Fund for comment. The memorandum to the Chairman of the Loan Committee should indicate that this has been done and advise of any comments received.
- (g) The President's Report for all structural adjustment loans or credits should contain a description of the country's financial relation with the Fund, the status of any current discussions relating to the use of the upper credit tranches, including the Extended Facility, and the result of recent Fund reviews of existing agreements.
- (h) Relevant sections of Country Program Papers should be sent to the Fund and the Fund should be invited to comment on any major issues on which there may appear to be inconsistent assessments between the two institutions.

6. I recognize that whatever formal procedures are established, their effectiveness will depend on the continuance of close informal consultation between the staffs of the two institutions. In general, I believe that the relations that have been developed over the years between the Bank's Regional Offices and the corresponding Area Departments of the Fund have been productive and mutually beneficial. Should any difficulties arise in the exchange of information or consultation or in reconciling differences of view, you should bring the matter to my attention.

7. The Managing Director is issuing parallel instructions to the staff of the Fund regarding their responsibility for consultation, particularly for those countries which have made use or are planning to make use of upper credit tranches, including the Extended Fund Facility. A copy of that memorandum and relevant background material are attached for your information.

Attachments

cc: Messrs. Baum, Chenery, Nurick, Qureshi  
Regional Department Directors  
Regional Chief and Senior Economists  
Programs Department Division Chiefs, and Divisional Staff