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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/171

3:00 p.m., November 28, 1984

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	
C. H. Dallara	M. K. Bush
J. de Groote	H. G. Schneider
	X. Blandin
M. Finaish	
	T. Yamashita
G. Grosche	B. Goos
J. E. Ismael	
R. K. Joyce	L. Leonard
	J. R. N. Almeida, Temporary
R. N. Malhotra	A. S. Jayawardena
	A. Abdallah
F. L. Nebbia	
Y. A. Nimatallah	
P. Pérez	
J. J. Polak	T. de Vries
	A. V. Romuáldez
G. Salehkhou	O. Kabbaj
J. Tvedt	A. Lindø
N. Wicks	T. A. Clark
S. Zecchini	N. Coumbis
Zhang Z.	Wang E.

L. Van Houtven, Secretary
B. J. Owen, Assistant

Also Present
S. S. Husain, Vice-President, Operations Policy Staff; C. Michalopoulos, Director, Economic Policy Analysis and Coordination, Economics and Research Staff, IBRD. Administration Department: J. G. Keyes. African Department: A. D. Ouattara, Director; D. E. Syvrud, J. C. Williams. European Department: L. A. Whittome, Counsellor and Director; R. P. Hicks. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; M. Guitián, Deputy Director; S. Mookerjee, Deputy Director; M. Allen, E. H. Brau, S. Kanesa-Thasan. External Relations Department: C. S. Gardner, Deputy Director; H. P. G. Handy. Fiscal Affairs Department: V. Tanzi, Director; G. Blöndal. IMF Institute: O. B. Makalou. Legal Department: G. P. Nicoletopoulos, Director; W. E. Holder, Ph. Lachman, A. O. Liuksila, S. A. Silard. Middle Eastern Department: B. A. Karamali. Research Department: A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director. Western Hemisphere Department: E. Wiesner, Director. Bureau of Statistics: P. L. Joyce. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, D. Hammann, K. A. Hansen, M. Z. M. Qureshi, T. Sirivedhin, A. Steinberg, E. M. Taha, D. C. Templeman, A. Vasudevan, M. A. Weitz. Assistants to Executive Directors: E. M. Ainley, I. Angeloni, J. Bulloch, M. Camara, Chen J., L. E. J. M. Coene, J. de la Herrán, G. Ercel, V. Govindarajan, G. D. Hodgson, Z. b. Ismail, H. Kobayashi, A. Koné, K. Murakami, E. Olsen, M. Rasyid, C. A. Salinas, A. A. Scholten, Shao Z., A. J. Tregilgas, A. H. van Ee, E. L. Walker, B. D. White.

1. FUND-BANK COLLABORATION AND ADJUSTMENT PROCESS - ISSUES FOR CONSIDERATION

The Executive Directors resumed from the previous meeting (EBM/84/170, 11/28/84), their consideration of a staff paper on Fund-Bank collaboration and the adjustment process - issues for consideration (SM/84/242, 10/30/84). They also had before them as background material a further progress report on Fund-Bank collaboration (SM/84/210, 8/27/84; and Cor. 1, 11/15/84).

Mr. Polak commented that the case for preserving the distinct character of the Fund and the World Bank was overwhelming for two reasons: the institutions were engaged in totally different activities, despite a few coincidental similarities in their purposes, and they financed their operations entirely differently. The Fund was financed basically through liquidity creation--a monetary method of operation enabling it to expand its activities greatly in the short run, but entailing the risk of inflationary consequences if pursued persistently. The World Bank, on the other hand, was primarily a channel for the transfer of long-term savings, and it could not therefore change the level of its activities drastically in the short term. The contrasting reactions of the two institutions to the international banking crisis of 1982 illustrated precisely that difference in their ability to respond.

It was instructive to find from the attachments to SM/84/242 that much of what had been said in 1966, 1970, and again in 1980 was still fully relevant, as the discussion at the previous meeting had also shown, Mr. Polak continued. Therefore, what was needed was not primarily new ideas but the application of agreed principles with some useful changes.

Fund-Bank collaboration assumed different importance for different groups of countries, as Mr. Nimatallah had suggested at the previous meeting, Mr. Polak recalled. For the major debtor countries, where the commercial banks were for the most part the other interested parties, it was entirely natural for the Fund to take a leading role, even though the World Bank could be of some help. But in Africa, the relative roles of the two institutions were quite the reverse; the Fund's activities had become largely catalytic. An important suggestion by Mr. Wicks was that the two institutions should collaborate in marshalling resources for countries in which they were both active--a suggestion that was of particular application to Africa, and much less so to countries with large debt. He had found no reflection of that suggestion in the list of specific procedures mentioned by Mr. Wicks, although he considered that the issue should be given further consideration, with reference specifically to Africa.

In seeking to apply, with precision and pragmatism, the principles on which there was clearly basic agreement, the specific procedures proposed at the end of the statement by Mr. Wicks were a helpful aid to the discussion, Mr. Polak observed. It would not be practical to make joint Fund-Bank missions, or shared participation in missions, the normal practice because the activities of the two institutions in the field were sufficiently different. There could however be better coordination in the programming of missions. As for the suggestion that there should be a more consistent country economic analysis, he agreed basically with both Mr. Wicks and Mr. de Groote that the aim should be to harmonize the diagnoses, rather than to start preparing consistent country economic analyses as a basis for Article IV consultation reports on the Fund side, country assessments on the Bank side, and program proposals by both institutions. However, over time, such a consistent economic analysis could be developed, based on those three types of reports, so that joint Fund-Bank views on a country could subsequently be reflected in Article IV consultation reports, country assessments, and program proposals. One possible way to achieve greater consistency in the papers prepared by the Fund and the World Bank would be to include whole sections of papers of one institution in those of the other, a suggestion made in 1970 that had rarely been applied.

As for the promotion of interaction between Executive Directors in the World Bank and the Fund, Mr. Polak remarked that Directors should of course be in close touch with their opposite numbers. It might also be interesting and instructive if Directors could occasionally be present as observers at meetings of the other institution's Board; he was less sure that all Executive Directors were qualified to participate actively in such meetings. Moreover, it was not obvious to him that it would be necessary to appoint Directors in one institution as Temporary Alternate Directors in the other institution for purposes of occasional attendance; the Secretaries of the World Bank and the Fund might perhaps be able to make less formal arrangements for that purpose.

On a number of occasions, when he had not been fully satisfied by the response of the Fund staff to questions pertaining to the World Bank that had been raised during discussions of individual countries in the Executive Board, Mr. Polak recalled, he had asked that the practice of having appropriate staff members from the other institution attend discussions in the Executive Board of each institution be formalized. The most important decision that the Executive Board could take as a result of the present discussion would be to try out such a procedure when both the Fund and the World Bank had a program in a country under discussion. The World Bank would of course have to decide whether it would be equally useful to have Fund staff members present when the Executive Directors of the Bank were discussing a country in which both institutions had programs. He would not insist on reciprocity, but he hoped that the Bank would respond to the invitation from the Fund to send a staff member to meetings of the Fund Board; likewise, the Fund should be ready to authorize its staff to attend meetings of the Bank Board, if invited to do so. Fund staff members should not be given guidance for any statements they might make, as was the practice when staff represented the Fund at GATT meetings.

In principle, he would not be in favor of informal joint meetings or seminars of the two Executive Boards, Mr. Polak noted, although he would be happy to attend any called for good reasons.

Members of the Executive Board were of course not the best judges of possible changes in what Mr. Wicks had called "domestic" arrangements, Mr. Polak stated. However, he would appreciate joint consideration by the managements of the World Bank and the Fund of the various points mentioned by Mr. Wicks. If the introduction of such changes were to lead to measurable economies and better mutual understanding, rather than constituting new sources of friction or bureaucratic wrangling, he would be in favor of joint activity along the lines described by Mr. Wicks. The suggestion that a joint report on Fund-Bank cooperation be made to the Interim and/or Development Committee was not a purely domestic matter, however. If good progress was being made, the two Committees would notice it in the respective activities of the Fund and the World Bank; if there was no progress, a report would not be very helpful.

Mr. Romuâldez said that he was in agreement with the substance of the statement by Mr. Wicks. The staff paper was a restatement of the principles of cooperation embodied in the 1966 definition of Fund-Bank responsibilities, and a narration of what had been achieved in terms of practical elaboration. Nevertheless, he shared the disappointment of Mr. Wicks and Mr. Grosche over the approach taken in SM/84/242, which was not fully responsive to the problems that had given rise to the need for reviewing or intensifying Bank-Fund cooperation. The specific suggestions made for strengthening that cooperation were generally appropriate, although even existing procedures had not always been followed faithfully; there had been instances when contact between the two staffs had been neither frequent nor close, and others of documents having been held back or only grudgingly shared.

The principles of cooperation, which had been broadly supported during the discussion, had not been placed in question, nor had there been a call for a redefinition of the responsibilities of the two institutions, Mr. Romuâldez continued. But the staff paper should have addressed certain questions, including the reason for the call for greater collaboration. Had collaboration in practice been perceived as inadequate, and if so, in what respect? If practical collaboration had been a relative success, what else had been perceived as lacking? If that perception was valid, what response should be made, and if it was not, how could the issue be clarified?

There were references throughout the staff paper, and correctly so, to the common general aims of the Fund and the World Bank, Mr. Romuâldez added. It was also appropriate to recognize, as the paper did, that the different tasks of the two institutions had to be viewed within the framework of those shared objectives. It was necessary to add quickly, however, that those objectives and the distinct operations that they involved for each institution pertained to the interests of and actions to be taken by the same member countries, each of which was historically situated and had its own peculiar and immediate need. As such, the program prescriptions of the Fund and Bank, though distinct, constituted aspects of one continuum, namely, the economic life of the member country. Overall, he had found the approach in the staff paper to be negative, as on page 6, where it was stated that in areas of common concern, "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." Surely, the aim should be a positive one, namely, to arrive at a complementarity of views and thus of advice. It should not be assumed that any lack of complementarity between the policies of the Fund and the World Bank would--because each institution looked at a member's situation from a different point of view--allow the issue of complementary advice to be left unresolved. Fund-Bank cooperation needed further strengthening in that area.

It was noted on page 8 of SM/84/242, Mr. Romuâldez continued, that "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." That statement seemed to him to imply a rather mechanical understanding, as much of the adjustment process as of the development process. Perhaps the World Bank and the Fund should work together in designing the programs for implementing their separate mandates--taking into account the member country's need, the level of development of its institutions, the precise direction of the adjustment prescriptions, and the specific strengths and weaknesses of the country's development strategy--rather than simply expecting the results to fall mechanically into place. The Managing Director had put it best, in his summing up on May 28, 1980 (EBM/80/84), when he stated that

> 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 policy 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.

He particularly appreciated the image evoked in the phrase "mesh together"; such meshing had however not been sufficiently in evidence. Indeed, as he understood it, some members were asking for more positive action to ensure that the programs developed by both institutions did in fact mesh together properly, which presupposed design, or, as Mr. Wicks had remarked, in quoting from the World Bank review of Project Performance Audit results, it presupposed planned complementarity. That type of design in turn presupposed not merely the sharing of information, or attendance at meetings, but close discussion and even a measure of consensus--or at the very least mutual understanding--based on a recognition of the respective mandates, competence, and standards of each institution.

If the issue of intensifying Fund-Bank cooperation had been raised because existing procedures were inadequate for a proper meshing together of programs, then the staff paper should have explored that issue, Mr. Romuáldez considered. He was not suggesting that the avoidance of cross-conditionality was no longer relevant; it remained fundamental, and it was implicit in the definition of the responsibilities of the two institutions. The principle was well put in the statement on page 9 of SM/84/242 that "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."

In conclusion, Mr. Romuáldez said, the suggestions on pages 13 and 14 of SM/84/242 might be of some help in improving Fund-Bank cooperation, but more was needed. In his view, a further staff paper should be prepared in response to the concerns that had prompted the recent calls for the intensification of Fund-Bank cooperation.

The Chairman remarked that he had not been aware of instances of insufficient contact between the staffs of the World Bank and the Fund, or of the withholding of staff papers. He would appreciate it if Executive Directors would bring such instances to his attention, and, if it was not inconvenient to the member, to the attention of the Executive Board.

Mr. Tvedt said that he welcomed the discussion on collaboration between the two Bretton Woods institutions, which had the common paramount task of working for economic advancement in member countries by effectively utilizing their resources. Yet the specific nature of the Fund and the World Bank should be maintained, there being important differences between them, and their respective areas of responsibility should be kept separate. However, when the World Bank had begun to make structural adjustment loans, and the Fund to support supply-oriented adjustments, the distinction between those areas of responsibility had started to become somewhat blurred. Thus, cooperation between the World Bank and the Fund had become increasingly important, particularly in light of the difficulties facing a large number of member countries.

The procedure for securing collaboration should aim, first, at giving member countries consistent policy advice and, second, at limiting--to the degree possible--any overlapping of work in the two institutions, Mr. Tvedt stated. The consistency of policy advice could be improved if the two institutions formed a common judgment on the economic situation as well as on the prospects of the country concerned and the appropriateness of its policies. That would to a large extent meet the objective of harmonizing diagnoses, to which reference was made in the staff paper as well as in the statement of Mr. Wicks. At the same time, however, he would stress the Fund's primary and leading role in making macroeconomic judgments. As the staff had pointed out, better mutual sharing of information would also be important in that respect. In particular, he would point to the need for the Fund to receive more information about existing or proposed policy covenants associated with World Bank projects.

Furthermore, it had not always been possible for the World Bank to provide timely and necessary information to the Fund on its assessments of public investment programs, Mr. Tvedt noted. It would be important to find ways to effectively strengthen the guidance provided by the World Bank to the Fund in appropriate areas without delaying the implementation of Fund programs. The Fund should possibly consider giving the World Bank confidential information on countries where the Fund might have to seek guidance, well ahead of when the potential need might arise. In most cases, the World Bank would then have sufficient time to provide guidance to the Fund before decisions had to be made; when that was not possible, the Bank could possibly be urged to put forward some broad policy advice. Such a procedure would also make it easier to synchronize missions and programs. When such synchronization had taken place in the past, it had laid the basis for deeper and fruitful collaboration between the Fund and the World Bank.

With a view to limiting the duplication of activities in the two institutions and to making more efficient use of their resources, Mr. Wicks had mentioned a number of steps that deserved further consideration, Mr. Tvedt observed. That was particularly true of those steps calling for the closer coordination of research programs, debt statistics, and technical assistance. Collaboration between the two institutions should take place at all levels, including the Executive Board, although he had doubts about the practicability of the notion that Executive Directors of one institution should be appointed Temporary Alternate Executive Directors of the other. In practice, the emphasis would have to be on collaboration at the staff level. He was in broad agreement with Mr. Wicks on staff attendance at, and participation in, Board meetings of the other institution.

Although he had some sympathy with the staff in its view that intensified cooperation could be carried out under existing procedures, some improvement and some additions to those procedures might be called for, Mr. Tvedt considered. However, the key element in collaboration was the role of each institution in defining the policy criteria and operations of the other, a very sensitive field that should be entered with prudence.

He regarded the present discussion, and the one that would take place in the World Bank Board, as preliminary, Mr. Tvedt concluded. Thus, he expected the staff to prepare a further paper containing specific proposals on action to improve collaboration between the Fund and the Bank. In his opinion, the issue was of some urgency, and such proposals should be made as early as possible.

Mr. Pérez remarked that Fund-Bank collaboration had traditionally been a subject for discussion. There would also be scope for stronger efforts in that field. In that context, he welcomed the specific proposals by Mr. Wicks for reinforcing the links between the two institutions, which had both played a major role in the difficult task of creating a better international economic environment. Despite their different functions and activities, they had common and complementary purposes, as set forth in their respective Articles. The objectives pursued by the Fund and the Bank and the policy measures required to meet them showed a strong degree of interdependence. As mentioned on page 8 of SM/84/242, "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 long-term structural and development objectives." In that regard, it should be noted that the action of one institution affected the other so strongly that, if coordination was not vigorously pursued, there might be some overlapping--or even worse, conflict--in their advisory activities. Moreover, current international economic circumstances were very different from those prevailing when both institutions were created, thereby justifying, in his opinion, greater collaboration. Organizational steps would have to be taken to modify the usual activities of the Fund and the Bank, in order to enable them to give better service to the international community.

Nevertheless, the practice of Fund-Bank collaboration had at times been the source of disagreements, which might have arisen as a consequence of the different points of view held by the two institutions, Mr. Pérez commented. If clear and homogeneous policy advice was to be given to members, the Fund and the Bank would have to make an effort to hold common views when they were assisting a given member country. Complementarity and interdependence were not however concepts to be used to curtail the autonomy of the respective Boards. Each institution was responsible for its own actions and decisions, and neither should interfere with the lending policy or activities of the other, as might happen in certain instances of cross-conditionality. Thus, even though there was a need to strengthen Fund-Bank collaboration, some action would be necessary to eliminate potentially undesirable effects.

Commenting briefly on some of the specific measures mentioned by the staff as providing scope for further progress, Mr. Pérez stated that he agreed fully on the need to coordinate financial assistance to members as well as on the beneficial effects of periodic exchanges of views. Several proposals had been made relating to missions and to participation by Bank staff members in meetings of the Fund Executive Board. However, the formalization of such participation would offset the advantages; the problems of reciprocity and of accountability of staff members reinforced the argument in favor of approving Bank staff attendance only under specific circumstances. Moreover, the same objectives could be attained through a more direct and prompt communication to the World Bank of matters of concern to it that were raised at Fund Board meetings.

To conclude, Mr. Pérez observed that Fund-Bank collaboration was of major importance to the achievement of common targets, but that each institution should nevertheless continue to function in line with its original purposes. That was the best way to attain the necessary complementarity among international organizations.

Mr. Alfidja said that he was in favor of closer cooperation between the Fund and the Bank to the extent that it contributed to the more effective performance of their various functions, especially in offering assistance in the formulation of stabilization programs and investment plans, the provision of resources to finance them, and the evaluation of the outcome. The vast expertise accumulated by the Fund and the Bank in their respective fields over the years had greatly enhanced their potential for providing much needed assistance to member countries. It was to be expected that that assistance would be all the more effective as the ties between the two institutions were strengthened. The close contact and understanding between the two Bretton Woods institutions that was needed was even more important than it had been a few years previously, considering that eligibility for and access to foreign aid as well as commercial loans was increasingly being based on a member country's relationship with the Fund and the World Bank. It was therefore of paramount importance that steps should be taken to ensure collaboration between the two institutions that was beneficial to member countries.

Referring to the issue of cross-conditionality, Mr. Alfidja noted that the staff had stated on page 6 of SM/85/210 that

> Executive Directors have stressed the need to avoid cross-conditionality, i.e., the making of financial support by one organization subject to the approval of the other. The practical experience of the last three years indicates that this has not been occurring. There are, of course, cases where a member pursues policies in the areas of concern to the Bank that are so inappropriate that the success of any Fund program would be in doubt. In such cases, no program was considered.

First of all, he was not entirely certain that he understood what was meant by "practical experience." He was even less sure about the assertion that there had been no instances of cross-conditionality during the past three years. While it might not be a very straightforward exercise to establish that assistance to a member country by one of the two institutions had been held up by a policy disagreement between the other institution and the country concerned, that should not obviate the need to examine the issue carefully and to deal with it. In that context, he agreed with previous speakers that the instructions contained in the Managing Director's memorandum of June 9, 1980 had been very useful in reducing the incidence of cross-conditionality and conflicting advice.

As to the statement that Fund assistance was withheld whenever there was doubt about the chances of success of a Fund-supported program because of an unfavorable judgment by the World Bank, Mr. Alfidja said that, although every effort should certainly be made to formulate and to implement successfully adjustment programs, he was not convinced that it was appropriate to withhold assistance to a member based on the opinion of another institution. First, that unfavorable opinion might prove to be unfounded; and second, the Fund had its own set of operating rules to guide its activities. The staff itself had recognized the important role of judgmental considerations in the formulation and evaluation of economic and financial policies. In sum, he believed that no member country should be denied access to Fund resources simply because, based on a World Bank judgment, the success of an adjustment program could not be envisaged beyond doubt.

He was not at present convinced of either the need for or the appropriateness of active participation of Bank staff members in meetings of the Fund Executive Board, and vice versa, as discussed on pages 14-16 of SM/84/242, Mr. Alfidja commented. In his opinion, the issues of the confidentiality of Executive Board deliberations, the accountability of staff, and reciprocal treatment should be carefully examined before further consideration was given to the idea of bringing the staff of one institution into close association with the discussions of the Executive Board of the other institution. However, he would welcome more extensive coverage of member countries' relationships with the Bank in Fund staff papers, his view being similar to that of Mr. Finaish.

The swift and successful negotiation of Bank-supported and/or Fund-supported programs depended on variables such as the degree of commitment of national authorities, the flexibility and realism of major policy measures, the outcome of negotiations with commercial banks, and the operational procedures of the two institutions themselves, Mr. Alfidja noted. Such procedures could, as the staff itself had indicated on page 7 of SM/84/210, lessen the effectiveness of joint assistance to member countries. The management, staff, and Executive Boards of the two institutions certainly had control over some of those factors. It would therefore be normal to expect those bodies to make the utmost effort to alleviate the adverse effects of such factors on the speed and outcome of negotiations by assuring effective collaboration and better synchronization of operations between the Fund and the Bank.

Finally, Mr. Alfidja remarked, he had found the suggestion by Mr. Wicks that the Fund and the Bank should "develop a shared understanding of a member's economic problems" appealing. He would go one step further by suggesting that the two institutions should undertake a joint study of the nature of the economic and financial difficulties confronting member countries, and formulate a realistic solution for them that would include concrete proposals for the mobilization of the necessary financial and human resources. Such a study could provide another opportunity for fruitful and effective collaboration between the two institutions.

Mr. Nebbia noted that over the past decade, the world economic environment had undergone severe changes as a result of shocks from the supply side and the adjustment response in several major economies that had led in turn to the need for similar adjustment in the developing world. However, the pace and smoothness of the response had differed substantially, either because of the ability of economies to cope with the new situation or because of their different structure and potential. It was within that context that the role of the Fund and the Bank, and consequently of their collaboration, should be examined.

In order to promote viable external positions and reasonable rates of growth for each of their members, both institutions had to pursue the clear and well-defined objectives set forth in their respective Articles of Agreement, Mr. Nebbia continued. But their responsibilities, while closely interrelated, should not be viewed as shared ones, nor as delegable from one institution to the other. However, the complexity of the situations in which several Fund members currently found themselves definitely called for a higher degree of collaboration between the two institutions in diagnosing a country's situation and in discussing the most appropriate policies to be implemented. As pointed out by the staff, in a number of cases balance of payments recovery could be a difficult process requiring the right set of policies to secure both the achievement of a viable external position as well as the attainment of longer-term structural development and growth objectives. It was in those situations, where institutional responsibilities overlapped, that the need arose for closer collaboration between the Fund and the Bank. In remaining areas, he fully endorsed the staff conclusion that the most desirable arrangement was still a clear separation of the roles and functions of the two institutions.

On more specific aspects of the issue of collaboration relating to the adjustment process, Mr. Nebbia referred first to the strong need to avoid cross-conditionality, which was more likely to be a problem in the absence of an appropriate understanding of the functions of both institutions. Where the views of the staff of the other institution proved to be a necessary input for the discussion of the appropriateness of an adjustment program, they should be fully considered. But the Fund could not rely entirely on the Bank's views in carrying out its responsibility for assessing whether or not a program was appropriate and merited the use of its resources. Again, the need for a careful distinction between the roles of both institutions was clear, as was the need for coordination to ensure complementarity; at the same time, the Fund must maintain its independence in setting its lending policies.

Second, coordination appeared to be a crucial factor whenever differences in judgment on the part of the two staffs led to conflicting or inconsistent advice to members, Mr. Nebbia added, examples of which had been mentioned by Mr. Robalino at the previous meeting. The procedures already in place to ensure the necessary collaboration to resolve those differences remained valid. However, even closer staff contacts would sometimes be desirable, for instance, if members had been making prolonged use of Fund resources without redressing imbalances. In such cases, it might be useful to have a clearer understanding of developments in the real economy and of whatever structural rigidities existed to permit a better diagnosis of the member's problems, thereby allowing for a greater measure of consistency in the advice given by both institutions. It would be both appropriate and helpful if the Fund staff were to provide the Bank staff with more specific indications of the countries and fields in which Bank-related inputs might be needed in the forthcoming period in order to assist in determining staffing and other priorities.

Third, far-reaching coordination would also be desirable in connection with the timing of disbursements associated with lending from both institutions to a member, especially when the adjustment process was to take longer than one year, Mr. Nebbia remarked. In that regard, consideration should be given, within the scope of a Fund program, to the need to take into account the restraints on a member's investment expenditures; in that way, associated assistance from the Bank could ensure that priority projects were not undermined.

He could share most of the views expressed by Mr. Wicks on what constituted an ideal set of specific procedures effectively to enhance Fund-Bank collaboration, Mr. Nebbia said. Nevertheless, some of the proposals seemed impracticable, whereas others would place an undue burden on the staff of both institutions.

He could not support the proposal to appoint Executive Directors of one institution as Temporary Alternate Executive Directors of the other institution on a regular basis, Mr. Nebbia continued. The present procedure under which Executive Directors of the World Bank could attend Fund Board meetings, subject to agreement, and whenever justified by the case under discussion, had proved effective in the past. It should not be necessary to make a formal appointment to improve current procedures. Close contacts between each constituency's Bank and Fund Executive Directors, as also suggested by Mr. Wicks, would fulfill the same role, whenever the constituency members deemed it necessary.

Attendance at Board meetings of each institution of appropriate staff from the other might prove useful under certain circumstances, but also seemed unnecessary on a regular basis, for the reasons set forth by the staff on page 15 of SM/84/242, Mr. Nebbia added. Such staff participation should be at the discretion of the management of each institution and be limited to appropriate cases. Similarly, parallel missions could put an undue burden on the recipient countries, and joint missions ran the risk of a loss of effectiveness. It would be more beneficial to ensure closer collaboration when preparing for missions.

Finally, Mr. Nebbia stated, he saw no need to bring the matter of progress in Fund-Bank collaboration to the Interim and Development Committees on a regular basis.

Mr. Zhang observed that because collaboration between the Fund and the Bank staff was being carried out in accordance with the principles and instructions laid down in the Managing Director's memoranda of 1966, 1970, and 1980, he was prepared to accept the staff's evaluation that the present procedures were generally adequate, and that there was therefore no need for a basic change in them at the present time. In that connection, he had been pleased to learn that the staff now recognized the importance of minimizing the problems of cross-conditionality, and he trusted that it would take practical steps to avoid it in future Fund-supported programs. However, he asked whether the staff of the World Bank had accepted the Fund staff view and would act in a similar way with future Bank programs. It was well known that the structural adjustment loans by the World Bank had in the past generally been granted subject to the cross-conditionality of requiring the country to have a Fund-supported program.

In its conclusions in the paper on issues relating to Fund-Bank collaboration and the adjustment process, the staff had mentioned two areas where collaboration needed further strengthening, Mr. Zhang noted. The procedures proposed by the staff for sorting out and resolving conflicting and inconsistent advice from the staff of the two institutions to governments struck him as reasonable. He could also accept the staff's suggestions relating to issues arising from the different methods of operation of the two institutions. It was important to increase the exchange of information between the two institutions at the Board, management, and staff levels; but staff attendance and participation in the Board meetings of the other institution should be decided on an ad hoc basis and should also be limited to countries having programs with both the Fund and the World Bank. In general, he did not see the need for laying down hard-and-fast procedures at the present time.

Many concrete steps had been proposed by Mr. Wicks for further strengthening and improving Fund-Bank collaboration, Mr. Zhang remarked. Although he could agree that the programming of missions should be better coordinated in the future, he had doubts about shared preparations for and participation in missions as a normal practice. Similarly, he was also doubtful about the suggestion that a consistent country economic analysis be used as the basis for Article IV consultation reports for the Fund Board and for country assessments for the Bank Board. As a matter of fact, it seemed more logical and natural not to undertake such joint analyses.

As for the changes suggested by Mr. Wicks in "domestic" arrangements, he would like to hear the view of management, based upon an evaluation of past experience, Mr. Zhang said. He was inclined to think that in some areas, such as training and technical assistance, a little competition between the Fund and the Bank might even be useful.

If the proposal by Mr. Wicks that the two institutions should "collaborate in the mobilization of financial resources, both from their own and from outside sources (the 'catalytic function'), in support of the member's economic reform program" were to be adopted and fully implemented, alongside the more concrete steps proposed by Mr. Wicks, there might be far-reaching implications for the future organizational structure and decision-making process in the two institutions, Mr. Zhang considered. For instance, would such an approach not lead eventually to a de facto merger of the Fund and the World Bank? Some Directors had noted that one of the bases for collaboration between the Fund and the World Bank was that both dealt with the same countries. In his opinion, that was not necessarily a valid argument, because the Fund, in its surveillance activities, was involved with a much larger number of countries.

Mr. Salehkhou said that he concurred with the principal view that although the Bank and the Fund, each according to its own characteristics, functions, and responsibilities, had broad and particular institutional mandates to pursue, there were numerous reasons justifying their collaboration toward reaching a common goal, namely, the overall economic and financial well being of member countries.

The principles of the cooperative relationship between the Bank and the Fund were not based only on the letter of the law of the two institutions, Mr. Salehkhou continued, but were checked and confirmed by the way in which each institution responded--by adapting its respective policies in its own sphere of activities--to a continuously changing world economic environment. Although, generally speaking, the Bank dealt with the real sphere of a member's economy in its policies and operations while the Fund was engaged in the financial sphere, the course of economic events and financial circumstances of the past decade had forced the two institutions to adapt their policies to changing economic realities. The Bank had put greater emphasis than before on policy and institutional reforms, while the Fund had provided more resources for longer periods to its members; those developments had led in turn to the need for wider cooperation between the two institutions so that they reinforced rather than contradicted each other.

The extent and complexity of the current global, economic, and financial problems indicated that a large number of countries urgently needed to make basic structural adjustments to cope with increasing obstacles to the supply of certain basic goods, to consolidate their debt burden, and to increase their exports, Mr. Salehkhou commented. All those objectives called for the provision of much larger external resources for a much longer time than was permitted by present policies and facilities. The Bank and the Fund would have to make a well-coordinated effort to address those problems.

Although the staff had reported in detail in SM/84/210 that Fund area departments and the corresponding Bank regional departments were currently cooperating with each other, and that fuller use had been made of the expertise available in both organizations, Mr. Salehkhou considered that it was necessary to go beyond the present formal reporting between the relevant departments and the limited informal contacts among the staff of the two institutions. The three questions to be posed were: first, whether the present cooperative relationship between the Bank and the Fund, which essentially consisted of exchanging views and documents and of the participation of staff in each other's missions, were sufficient to pursue more efficiently and effectively the long-term goals and the immediate objectives of the two organizations, within their individual mandates. Second, what precise, common institutional and administrative grounds existed for furthering, in substance and procedure, collaboration between the Bank and the Fund? Third, since further collaboration between the two organizations was only a means rather than a goal, what were the most immediate and specific common objectives to be reached, and how should their respective members' present economic and financial problems be jointly addressed, in order to ensure a complementarity of their coordinated activities?

He had gathered from the concluding remarks in both staff papers that the present methods of cooperation of the Bank and the Fund, as drawn up and reviewed in 1970 and 1980, were considered to be adequate, Mr. Salehkhou continued. Nevertheless, taking into account the increasing developmental and financial needs of member countries, there was always room for more joint utilization of the facilities and potential of both organizations, in the form of more systematic and complementary adjustment programs and additional developmental projects, particularly in light of the difficult conditions prevailing in international financial markets.

Any "separate but coordinated" effort by the Bank and the Fund to meet the economic development and financial adjustment needs of their members should, in his view, make allowance for certain substantive aspects and procedural measures, Mr. Salehkhou observed. First, members needed to retain greater and more definite assurance of adequate financing at the proper time. In that respect, effective collaboration would be most feasible under medium-term plans agreed upon in advance and under which disbursements could be made on time as long as the conditions were observed, thereby ensuring the availability of adequate resources on the targeted dates. Second, adjustment programs for developing members--especially among the sub-Saharan countries--should be supply oriented, with greater priority being given to food, fuel, and essential needs. Third, cross-conditionality should definitely be avoided. Moreover, member countries should not become entangled in a morass of multiple feasibility studies, missions, negotiations, and programs with parallel and/or multidirectional conditions imposed by various agencies and institutions. In that way, costs to the country and to the lending institutions would be minimized. Fourth, efficiency, continuity, and progress should be considered as integral functions and characteristics of every aspect of any cooperative effort on the financing and monitoring of adjustment and development processes in order to permit the interest costs to be lowered through integrated financing.

Finally, Mr. Salehkhou observed, whether or not the Executive Directors of the World Bank were presently engaged in examining the topic, he would recommend that, as a precursor to any change in the current relationship between the Bank and the Fund, future reports on collaboration should be jointly prepared. Such an extension of cooperation should facilitate a more unified as well as a more efficient approach to the issues by both Boards, thereby promoting and preserving the mutual and equitable interests of all member countries.

Mr. Ismael said that he had no problem endorsing the general thrust of the review by the staff on Fund-Bank collaboration, which had been both productive and satisfactory. However, in present economic circumstances, a more fundamental reassessment of that collaboration was called for. Economic developments in the past several years had highlighted more profoundly the interdependence of shorter- and longer-term economic forces. Sound management policies to correct external imbalances might have been necessitated by problems either in the real or in the financial sector. In some respects, the design of programs and nature of the financial assistance offered by the World Bank and the Fund had been modified accordingly, for instance, by making available structural adjustment loans and special assistance under the extended Fund facility. But collaboration between the staff of the two institutions had not, in his view, gone beyond formal procedural arrangements for coordination and the mutual exchange of information. It was appropriate to work for a more in-depth collaboration.

To that end, Mr. Ismael continued, Mr. Wicks had suggested appropriately that steps should be taken to harmonize diagnoses of the Fund and the World Bank. He would go one step further and call for progress toward mutually compatible policy prescriptions. The need for a policy to reconcile the objectives of economic growth and external balance had been discussed at some length on previous occasions. It had been claimed that those objectives were not mutually exclusive, and that a joint effort by both institutions, each bringing its own goals and expertise to bear and working closely together, would be an excellent way of ensuring the achievement of a joint objective. In his view, such an approach would call for collaboration between the staff of the Fund and the World Bank, in the field as well as at headquarters, on an analysis of the need for assistance and the design of programs. Of course, he recognized that such collaboration in the real sense, and not merely on the procedural plane, might not always be practical because the two institutions were independent. But when substantial adjustment was required, and if problems could not be attacked at their roots in the short term by the policy prescriptions of the Fund, then the input of the Bank should be marshalled. In normal cases, of course, the degree of collaboration that already existed was adequate.

For in-depth collaboration to become a reality, Mr. Ismael added, the programs supported by both institutions would have to be harmonized. The inherent strength of the programs that the Fund supported was in his view the quick-disbursing nature of the financial assistance and the short time it took to respond to requests by members for that assistance. Countries had fared less well under the Bank's lending policies, although recent innovations had led to some progress. If coordination was necessary to avoid conflicting policies and results, certain aspects of the programs of both institutions would have to be examined and made more flexible. The staff itself had indirectly suggested as much in its concluding remarks on page 18 of SM/84/242. He was also glad that Mr. Wicks had brought out the need for the two institutions to collaborate in mobilizing financial resources in support of members' economic programs. That would add a new dimension to collaboration, to which the Fund should give due consideration. However, in the process, there should be no move on the side of the Fund to narrow access to its resources, nor should there be any move to apply cross-conditionality. Otherwise, the whole exercise of increasing collaboration would be defeated.

In further reference to the first set of issues mentioned on page 17 of SM/84/242, relating to the possibility of conflicting or inconsistent advice to members, Mr. Ismael reiterated that he would favor closer contacts between the staff of the Fund and the Bank in the field whenever there was evidence of substantial disequilibria and when the World Bank's input was required. Joint analysis would lead to the harmonization of diagnoses and prescriptions. As for the second set of issues arising from the different modus operandi of the Fund and the Bank, and which was dealt with on pages 17 and 18 of SM/84/242, the strength of the Fund was that its assistance was of a quick-disbursing nature. If the joint efforts of the two institutions were to be enhanced, the World Bank should be equally flexible.

In conclusion, Mr. Ismael supported the remarks by Mr. Wicks relating to participation of Fund and Bank staff at the Executive Board level, as well as his remarks relating to collaboration at the operational level.

Mr. Dallara said that there was much in the two staff papers with which he agreed, particularly with regard to the need to recognize and respect the different mandates of the two institutions. Increasing awareness of the commonality of interests between the Fund and the Bank and the need for closer coordination between them must not be allowed to blur the familiar but fundamental differences that should continue to exist between the two institutions. Other Directors had already drawn attention to a centrally important difference, namely, the Fund's surveillance over all its members' policies, a role with a breadth to which the Bank had no counterpart. He was just as convinced about the need to preserve the separate identities and functions of the two institutions as he was about the essential need for more effective collaboration. Within that context, he joined other Directors in believing that more extensive collaboration between the Fund and the Bank was critical. He associated himself more particularly with the comments of Mr. Polak, Mr. Yamashita, and others, and would depart somewhat from the views expressed by Mr. de Maulde.

Coordination between the two institutions might in fact be necessary for the two institutions to maintain their separate identities, Mr. Dallara considered. As the staff had noted on page 11 of SM/84/242, "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." In the latter situation, it would seem essential for the preservation of the Fund's role that the two institutions should work hand in hand. Many of the specific suggestions put forward in the staff paper, as well as by Mr. Wicks and other Directors, had particular relevance in that connection. As noted in the staff paper, in most such cases, the Fund should remain associated with the member's adjustment program. The association might perhaps most appropriately take the form of a modest program consistent with the Fund's policies on access limits. However, he differed somewhat with the staff statement that the Fund itself should "usually" provide modest support; in some cases, the most appropriate role for the Fund might possibly be surveillance, conceivably some form of expanded surveillance. In any event, close cooperation between the Fund and the Bank would be necessary if the member country was to receive effective continued support from both while at the same time the two institutions were allowed to adhere to their respective mandates.

A number of the useful suggestions made by the staff were already being implemented, Mr. Dallara noted with satisfaction, in particular, the recent designation of individuals in area departments to act in formal liaison with counterpart departments in the banks. Nevertheless, he shared the disappointment expressed by certain other Directors about the lack of more precise, specific ideas for improving Fund-Bank cooperation. He did not have in mind ideas that necessarily involved new procedures, because the basic procedural framework already existed, as Mr. de Groote and others had noted. But within that framework, his authorities saw considerable scope for new, precise steps, to be taken moreover with a greater sense of operational immediacy than was apparent from the staff papers. Thus, he joined Mr. Grosche and others in calling for a further paper analyzing many of the suggestions that had been put forward during the present discussion and, he hoped, detailing specific steps within the existing procedural framework that could be taken to decisively enhance collaboration between the Fund and the Bank. In that connection, he welcomed Mr. Wicks's statement, and looked forward to an early analysis of the specific proposals he had made--many of which he himself could support--and to their early implementation, as appropriate, by both the Fund and the World Bank.

From the point of view of adjustment and of the development prospects of a country, Mr. Dallara continued, it was important to avoid conflicting policy advice to members if at all possible. Of course, particularly in the early stages of discussion between the staff of the Fund and of the Bank about the problems of a country, some differences of view were not only inevitable but healthy. He noted that the staff paper suggested that mission chiefs should consult their counterparts at an early stage and keep them informed, not only to avoid conflicting advice, but to give the most appropriate advice to a country to help it accomplish its highest priorities.

One aspect of the issue that had not apparently been fully explored was the method for resolving the problem of conflicting advice, or of what might perhaps more appropriately be described as differences of view, Mr. Dallara added. Like other Directors, he believed that it was often a matter of different priorities or of the different time horizon of the two institutions. And if there were differences of view that were relevant to a particular program, he hoped that they would be brought to the attention of the management and, if necessary, to the Executive Board, not for resolution by the Board but to ensure that a channel existed for resolving them as they arose. In certain instances, differences would be inevitable, and might have to remain so--perhaps rightly--unresolved.

An interesting and relevant issue that bore further analysis by the staff was the extent to which variations in the analyses and prescriptions emerging as a result of the different time horizons of the institutions could or should be sorted out, Mr. Dallara remarked. He had in mind various instances of the basically different approaches of the two institutions in member countries in which they were both involved. In one case, work had been concentrated at one point on the liberalization of trade policies; the Fund had developed what it considered to be an entirely reasonable plan for substantially decreasing trade restrictions within the period of the program of, say, 12-18 months, whereas the World Bank had already been working for a considerable time on a trade liberalization plan that would run for more than 10 years.

While he could support reciprocal staff attendance at meetings of the Executive Boards of the two institutions in certain cases, Mr. Dallara continued, he was not convinced that it would be particularly helpful in and of itself. Indeed, he had noted the staff effort to devise other ways to accomplish the same objective, including the development of a procedure for submitting questions to the World Bank following a discussion in the Fund Board. In fact, the most effective way to enhance the sense of collaboration at the Board level might be to ensure that complete information was available prior to Board meetings in the Fund--and as appropriate in the Bank--on the current status of a country with respect to the objectives, operations, and programs of the World Bank--or vice versa, of the Fund. The growing number of Fund staff papers in which information was provided on the status of World Bank operations in the countries in question had been cited in SM/84/210. For certain Fund members, it should be possible to standardize the extent and the nature of such information, which should cover not only the possible existence of problems under a structural adjustment program or sectoral program that might be of relevance to the achievement of the objective of a Fund program, but provide a deeper analysis of the extent to which Bank operations were relevant, either directly or indirectly, to balance of payments adjustment in the short to medium term. For instance, he would find it helpful to know whether any difficulties that the Fund or the Bank were having in working out prices of specific commodities produced by a certain country were likely to be centrally, moderately, or relatively unimportant to the attainment of the balance of payments objectives inherent in the Fund program.

While he foresaw problems of timing and logistics in joint Fund-Bank missions, Mr. Dallara remarked, he felt that more frequent inclusion of both staffs in each other's missions would be good.

On the related topic of common analysis of a member country's problems, he fully supported the broad objective outlined by Mr. Wicks and other Directors, but did not see clearly how a common analysis could be developed systematically and on a timely basis, Mr. Dallara added. The Fund was not likely to want to adjust its Article IV consultation schedule and consideration of programs under arrangements with the Fund to the timing of the World Bank's analysis. No doubt there were also constraints on the World Bank's side. The most fruitful approach would be to view the need for developing a consensus on the nature of a country's problems as an iterative process under which a continuing dialogue between the staff and management of the Fund and the Bank, and the possible development of a common analysis, could be shared with the Executive Board, in time leading the institutions to take a more common approach in analyzing the nature of a country's problems and the steps necessary to deal with them.

Mr. Malhotra noted that in SM/84/242 the staff had come to the broad conclusion that the specification of the primary responsibilities of the Fund and the Bank agreed in 1966 remained valid and that the procedures for practical collaboration drawn up at that time, and reviewed subsequently in 1970 and 1980, were also generally adequate. The addition of new procedures, according to the staff, was unlikely to be helpful, because many of the problems that arose were not the result of the procedures themselves but of their implementation. The staff had also cited its experience that so far major differences between the Fund and the Bank staff over policy issues in areas of common concern had been the exception rather than the rule. If that indeed was the situation, he found considerable merit in the staff's approach of trying to deal with the problems as they emerged instead of attempting to formalize new procedures.

In addressing the problem of differences in judgment between the two staffs that might lead to inconsistent or conflicting advice, Mr. Malhotra observed, the staff had underlined the importance of bringing about a harmonization of views through regular contacts between the area and regional departments of the two institutions. That approach was correct. However, like Mr. Dallara, he was not certain that uniformity of views on certain issues on which opinions might diverge was always meritorious, as the staff seemed to suggest. The different focus of policies and responsibilities of the Fund and the Bank made it unwise to encourage too much similarity of views on matters where the ultimate outcome could not be predicted. It was, however, important to reconcile inconsistent policy advice where conditionality was involved. Other policy recommendations, of a more general character, provided only guidance to member countries.

It was perhaps unnatural for the discussion so far to have focused on issues of cooperation between the Fund and the Bank, and for the third party, whose interests were presumably at stake, to be overlooked, Mr. Malhotra commented. Rather than attempt to resolve all differences of view, it might be better for the Fund and the Bank to make their own perceptions known to the member country concerned, leaving the final judgment to the authorities.

The issues arising from the different modus operandi of the two institutions, and in particular from the respective timing of their activities, had been treated well in the staff paper, Mr. Malhotra considered. The complexity of the issues confronting the two institutions in the discharge of their respective responsibilities required a careful definition of the areas in which they should be collaborating. Recent deliberations of the

Group of Twenty-Four indicated that there were serious concerns among the developing countries about the consequences of greater collaboration between the Fund and the World Bank. As Mr. Finaish had noted, in their communiqué issued on September 21, 1984, the Ministers of the Group of Twenty-Four had expressed concern "at the undue emphasis on policy-based lending and the move to link the quantum of Bank assistance to increasing conditionality, and emphasized that coordination between the World Bank and the International Monetary Fund should be in keeping with their respective roles and not become a means for exerting concerted pressure on borrowing countries."

The idea that the Fund and the Bank should be responsible for working together with a view to presenting a country with what they considered to be the best course of action for it was disturbing, Mr. Malhotra went on. As Mr. Polak had rightly mentioned, the two institutions were separate entities with distinct responsibilities, despite some similarities in their Articles of Agreement. The purpose of the Fund was to give its members confidence that it stood ready to provide balance of payments financing in case of need. The Fund also had surveillance functions to perform. The World Bank, on the other hand, concerned itself more with project financing and the overall development plans of its member countries. The Bank also prepared detailed and comprehensive country studies, although not on such a regular basis as the Fund prepared reports for Article IV consultations. Therefore, coordination between the two institutions should ensure that while carrying out their respective functions, they should identify areas in which coordination was necessary. In his view, the staff had rightly concluded that the best way to improve each institution's understanding of the functions of the other was through the exchange of information about their activities in a particular country. Questions that arose as a result of the exchange of documents should then be discussed. To go beyond that would run the risk of blurring the distinction between the roles of the Fund and the Bank.

Cross-conditionality, which was apparently favored by no one, had been the subject of considerable discussion, Mr. Malhotra remarked. But like Mr. Zhang, he believed that cross-conditionality was widely practiced. There was a statement in SM/84/210 that structural adjustment loans had in practice always been associated with the existence of effective Fund programs. The fear was that a policy of "shadow" cross-conditionality was in the making. For instance, referring to the conclusions in Section V of SM/84/242 regarding the way in which the Fund and the Bank could provide resources to member countries, he noted that mention had been made of official balance of payments financing as calling "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." It was not clear to him whether official balance of payments financing covered bilateral assistance, other than that obtained from the Bank and the Fund. Reference had also been made to catalyzing other sources of such financing, and to the need to ensure that the required standards of conditionality were safeguarded. He recognized that, if a number of parties, including commercial banks, were involved in a financial package worked out by the Fund, the additional bank financing was normally made conditional on there being a Fund program. However, that practice had emerged only after the so-called debt crisis, and he hoped that it would indeed prove a deviation from the norm. The objective should be to restore countries to a position where they could attract spontaneous financing from other countries and from commercial banks. In fact, some countries that had not been hit so hard by the debt crisis were able to maintain a satisfactory relationship with financial markets. It would not be helpful if cross-conditionality were to develop as a result of bilateral sources of financial assistance being mingled with financing provided by the Fund and the World Bank.

Further formalization of procedures for collaboration might introduce much greater rigidity into the decision-making process and practices of the two institutions, Mr. Malhotra considered. They would be less independent, and their decisions would be delayed, if one institution's activities were made conditional upon decisions reached by the other. The complexity of the operations of the Fund and the World Bank made it unrealistic to expect that all their activities could be coordinated according to some perfect plan. He was not suggesting that there were no areas of common concern to the two institutions. In selecting such areas for collaboration, the staff had rightly suggested the provision by both institutions of balance of payments financing, including structural adjustment lending by the Bank. Collaboration was also useful in dealing with highly indebted countries, where many parties were involved. Project financing by the World Bank was of course not a matter for Fund-Bank collaboration.

Referring to the statement by Mr. Wicks, Mr. Malhotra suggested that shared preparation of and participation in missions should be on a very selective basis, as had been the practice in the past; it could not become the normal procedure. If the real sector of the economy was an important element in an adjustment program supported by an extended Fund arrangement, it would be appropriate for the staff of the World Bank to be involved. However, staff time was far too valuable and such joint work should not become routine. Better coordination in the programming of missions would be useful. However, he had serious doubts about the suggestion that a consistent country economic analysis should be prepared to serve as a basis for various types of country activities of the two institutions. Did that mean that Article IV consultation reports, for instance, would then be based on such an analysis? The staff of the Fund already did its very best to produce an informative and comprehensive report for Article IV consultations, and it should continue to do so. Likewise, the World Bank should continue to make its own country assessments. The way to achieve more consistent analysis was to continue the existing arrangements for the exchange of such country reports by the two institutions.

It was up to Executive Directors to determine how close a relationship there should be between the Bank and the Fund constituencies, Mr. Malhotra considered. Many Executive Directors did stay abreast of developments in the Bank, but procedures for that purpose could not be usefully formalized. He also shared the doubts expressed by other Directors on the desirability or usefulness of appointing Executive Directors of one institution as Temporary Alternates of the other. However, he could go along with Mr. Polak's suggestion to extend an open invitation to Executive Directors to participate in the meetings of either institution on matters of specific interest to them. Time constraints would not permit Executive Directors in the Fund to attend Bank Board meetings on a regular basis.

Active participation of World Bank staff in the meetings of the Fund's Executive Board, while it would not cause major problems, might not always be very helpful, Mr. Malhotra added. The staff proposal in SM/84/242 appeared to be constructive, provided that the Fund staff limited its report on questions raised in the Fund Board meeting to specific points raised during the discussion and did not, as the staff seemed to suggest, extend to the staff proposing areas in which the World Bank should be more active.

While he had no special difficulty with respect to the suggestions by Mr. Wicks for changes in "domestic" arrangements, Mr. Malhotra concluded, the ideas put forward should be considered in some depth by the managements of the two institutions. The suggestion for a joint report on Fund-Bank collaboration to the Interim and/or Development Committee was not a domestic arrangement, and was of doubtful use.

Mr. Abdallah said that he was in broad agreement with both the approach and the analysis in the two staff papers under discussion. The need for close collaboration between the Fund and the Bank was beyond dispute because the two institutions had been created together, were complementary, and moreover were close neighbors. He had also found the statement by Mr. Wicks to be constructive and could broadly agree with his approach as well as with many of the ideas he had put forward.

The staff of the two institutions must collaborate more closely on matters of common interest, Mr. Abdallah considered. There was no doubt that whenever the Fund and the Bank worked together to mobilize resources for a member country, their joint action resulted in a greater flow of resources, the adjustment process moved more smoothly, and economic growth was resumed more quickly. But Fund-Bank cooperation should be promoted in an environment that enhanced the confidence and equanimity of all members. It was generally agreed that both institutions approached the problems of all member countries in an impartial and objective manner. Yet the strongly desired objective of harmonizing diagnoses could give rise to occasional difficulties; both the Bank and the Fund were involved not only in the business of diagnosing economic ills but also in prescribing treatment or solutions. And it was in presenting solutions that difficulties or disagreements with member governments were bound to occur from time to time. It was essential that any such disagreements be confined to the institution concerned and not be allowed to involve the other institution. If collaboration between the Bank and the Fund was too close, a country might well be denied the use of resources to which it was entitled from one or the other institution. Mr. Finaish had referred to the communiqué of the Group of Twenty-Four, which had expressed the general apprehension of Third World countries on that issue, as had Mr. Malhotra. That apprehension was real and would have to be borne in mind by all concerned.

As Mr. Wicks had emphasized, what was being sought was a deeper collaboration between the Fund and the Bank that would not lead to a loss of identity or integrity of either institution, Mr. Abdallah noted. Everyone agreed that the Fund and the Bank were separate but complementary institutions. There was also general agreement that the two institutions should collaborate more closely. The major issue was how far the collaborative process should go and what additional steps needed to be taken. The matter required further study by the managements of the two institutions as well as further deliberation by the Executive Boards of both the Fund and the Bank. He looked forward to such discussions at an appropriate time in the future.

In the meantime, Mr. Abdallah added, one aspect of the issue of close collaboration that must not be overlooked was that it should never give rise to any form of contrived unanimity of approach and views on the part of the Bank and the Fund. The statement by the staff on page 6 of SM/84/242 bore repeating in that connection:

> 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.

There had been no suggestion that the aim of consultations between the two staffs was to develop a contrived uniformity of outlook. But the risk nevertheless existed because if management kept pressing its staffs to consult each other and ascertain the other's reactions on all major issues, sooner or later, it would tend to be interpreted as suggesting a need to reach consensus with the other institution. It would be all to the good if agreement could be reached in a genuine and constructive manner, but if not, it could have a deadening effect.

Deeper collaboration between the staffs of the Fund and the Bank could of course also have several constructive results, Mr. Abdallah noted. One benefit might be the possibility of identifying options for member countries in their adjustment and development programs. At present, both institutions presented countries with prescriptions that to all intents and purposes took the form of final offers. There was no doubt that member countries would benefit greatly if the various courses of action open to them could be defined and the consequences pointed out. He fervently hoped that closer Fund-Bank collaboration would lead to broader policy discussions between member countries and the two Bretton Woods institutions. The desirability of that closer collaboration should nevertheless not push the staffs of the two institutions beyond what they themselves considered reasonable.

The Director of the Exchange and Trade Relations Department remarked that the need for the Fund and the Bank to be accountable for their own actions, and the implications of that for cross-conditionality, had clearly been well understood. If the extent to which collaboration between the two institutions had improved over the past few years had been less well understood, it was perhaps because that was more difficult to describe. As mentioned in the progress report, the improvement had come about because of the tendency of the Executive Boards of the two institutions to become involved with the same issues when dealing with the serious problems experienced recently by many member countries. There had naturally been initial differences of view of particular countries' situations, but both institutions had arrived at a remarkable understanding of each other's problems, thanks to the various ways in which the two staffs had established arrangements for routine contacts. The result was that member countries had benefited greatly. As Mr. Malhotra had observed, the main virtue of cooperation was better service to the member. His own personal experience, and that of staff in the area departments, was that much more time was now being spent explaining the Fund's activities to the Bank staff, and learning in return what the Bank was planning. Great gains had come from the knowledge acquired by the Bank staff of the recommendations that the Fund staff considered making to member countries on critical issues.

Part of the difficulty in describing the intensified cooperation between the staffs of the Bank and of the Fund was attributable to the different procedures and operations of the two institutions, the Director added. The Bank had created a project-oriented structure for providing financial assistance to its members, whereas the Fund's financing operations were more crisis oriented. Consequently, the tempo and format of the work of the two institutions was different. For instance, the Bank, unlike the Fund, made much larger use of consultants; and the Fund relied on advance briefings of its missions, whereas the Bank did not.

Many of the issues raised by Mr. Wicks had been covered in SM/84/210, the Director noted, even though it had been hard to cite systematic procedures as evidence of fuller cooperation. In the light of the discussion at the present meeting, a further attempt would be made to ensure that every possible avenue of cooperation was being explored. As Mr. Wicks had mentioned, in referring to the recent designation of a coordinator in Fund area departments and Bank regional offices, such an arrangement could not be a substitute for basic cooperation between the Fund mission chiefs and their counterparts in the World Bank. Nevertheless, the arrangement for more formal liaison between the counterpart departments, which had been instituted at the initiative of the World Bank, had provided a useful additional way of holding someone accountable for activities in the various regions, especially at a time when wide-ranging missions were going into the field from both institutions. In the end, the Executive Board of each institution would have to make a judgment, based on its own experience, about the adequacy of the procedures for collaboration.

An attempt had been made in the staff papers to indicate that there was a continuing need for more than an improved understanding between the staffs of the Fund and the Bank so that members would be offered broader advice, the Director of the Exchange and Trade Relations Department commented. It was also necessary in current world economic and financial conditions, with many members being severely pressed and dependent on the Fund's resources, to profit from the World Bank's expertise in areas in which it had a comparative advantage. The two most critical areas concerned investment priorities, particularly in the public sector, but more broadly with respect to the efficiency of parastatal enterprises. The World Bank could play an important role in those areas, but the extent to which it could assist the Fund staff would depend on the course of action endorsed by the Bank Board. The next stage in the discussion would in fact be to know how the Executive Board of the World Bank would wish to proceed, especially as it would view the whole matter from a different angle.

The Deputy Director of the Exchange and Trade Relations Department explained that the nature of the linkage between the area departments of the Fund and the regional offices of the Bank had been designed to take into account the number of different staff working on country matters in the World Bank. By placing the chief economist in each region as a coordinator, the Bank had brought together the various areas of its broad relationship with its member countries. The Fund had therefore seen merit in designating a senior staff member in each area department, familiar with country-specific matters, as a counterpart to the Bank regional staff coordinator. The designation of such coordinators had in no way been meant as a substitute for the direct functional relationship that existed and would continue to exist between Fund mission chiefs and the division chiefs in the World Bank.

At the time when SM/84/242 had been under preparation, the Deputy Director recalled, the Bank staff had indicated that it might have difficulty in reciprocating the Fund staff's proposal to provide a note summarizing the relevant parts of the discussion in the Executive Board. That reflected, in part, concern about its ability to adhere to such a procedure, and in addition, the Bank staff had had in mind the different nature of the discussions on country matters in the two Boards. In the Bank, the Executive Directors discussed individual loans to countries rather than country policies; it was the discussion of structural adjustment loans that was more comparable to the programs and other country discussions in the Fund Board. The initial problems on the side of the Bank staff would no doubt be resolved satisfactorily, and the subject was being kept under review in an effort to establish a reciprocal arrangement.

The Bank Board would also have an opportunity to take up the issue when it considered Fund-Bank collaboration. The possibilities for broader coverage of Bank views in Fund staff reports were also limited by the concentration of the World Bank's work on specific project loans. In staff reports for Article IV consultations, the tendency had therefore been to report on the operations of the Bank with member countries, rather than on the views of the institution, because the Bank did not formulate its views on the general policies of member countries as often as the Fund did.

There had not been much duplication of effort in the collection of debt statistics, the Deputy Director considered. In fact, the staff had gone to great lengths to coordinate the collection of statistics, not only with the World Bank but with the OECD and the BIS.

The procedures for the exchange of documents, which was an important aspect of the direct exchange of information, had been explained in SM/84/210, the Deputy Director noted. The staff was also fully aware of the need to prepare broadly consistent medium-term scenarios, especially in light of the forthcoming meetings of the Interim and Development Committees. The research departments of the Fund and the Bank were working closely together on the preparation of the World Economic Outlook and the World Development Report, respectively, to ensure that the two surveys converged.

Two technical questions had been raised concerning the relationship between Bank lending and Fund programs, the Deputy Director observed. Ceilings on foreign borrowing under programs supported by arrangements with the Fund covered total external loans and did not exclude individual loans, whether from the World Bank or from other sources, in the hope that the member would select only the best loans to stay within the ceiling. Thus, exceptions would not normally be made for loans from the Bank, allowance being made for the disbursement of funds under existing contracts between the member country and the World Bank in the formulation of the ceilings themselves. Again, the normal procedure in calculating ceilings on domestic credit expansion was to take into account a government's need to raise domestic resources as a counterpart to the Bank's foreign exchange loans. Every effort was made to avoid a priori inconsistencies between Fund programs and Bank loans.

Mr. de Groote remarked that it would be misleading to leave the Executive Board with the impression that the World Bank, because of its special concern with projects, had no view on the development policies of members. All the documents presented to the Bank Board on projects contained an interesting summary of and views on a country's general policies, more particularly on development policies. The Bank expressed its view on the validity of those policies, on the need to modify them, and often on their financial implications for the balance of payments, an area that was within the province of the Fund. In addition to having an extensive documentation on members' development policies, the World Bank published a great number of country development studies. The Bank should not therefore experience great difficulty in providing the Fund with clear views on individual countries' development policies.

Mr. Malhotra commented that it was useful for the Fund to receive routinely Bank documents of a general analytical character, and he believed that arrangements were already in place for that purpose. The outcome should not however be the imposition of Fund-type conditionality. For that reason, he had stressed the need for care in selecting the areas for cooperation, which should cover general policies and not specific projects.

Mr. Nimatallah noted that the general philosophy underlying many of the comments that had been made during the discussion seemed to be that collaboration was useful only if it served the interests of members, and that it should be applied only under certain conditions, for instance, if members made requests for loans or arrangements with both the World Bank or the Fund. As he had stated during the recent discussion in the Executive Board of how to deal with overdue obligations of members to the Fund (EBM/84/166 and EBM/84/167, 11/19/84), it would be far more useful to establish procedures in advance, for application as needed, than to wait until overdue payments, or in the case under discussion, problems relating to Bank project loans or arrangements with the Fund revealed the need for such procedures. The risk of failing to establish rules in advance was that some countries would feel singled out by being subjected to contingency performance criteria or other conditions. Of course, prudence might call for making provision to apply such rules with discretion and flexibility, depending on the individual circumstances. The matter for discussion by the Executive Board was whether procedures to deal with specific problems should be established in advance, or whether they should be considered only when problems had become universal, the ad hoc solutions applied in the meantime having proved inadequate.

The Deputy Director of the Exchange and Trade Relations Department observed that while it might sometimes be useful to codify procedures to deal with specific problems that the Executive Board might see emerging, the risk of adopting that approach as the normal basis for policy was the lack of flexibility. The issue was related to the use of jurisprudence, or of a code of rules, namely, it involved a choice between a common law approach, which the Fund had generally followed, versus one of civil law, which attempted to codify all aspects of human behavior or institutional practices.

Mr. Nimatallah added that he wished simply to bring the matter to the attention of Executive Directors, who had now faced the issue on three separate occasions and were likely to do so again. His own view was that it was preferable to establish procedures and rules, even if they did not have to be applied often.

The Chairman made the following summing up:

I think it is fair to say that Directors generally indicated broad agreement with the thrust of the two staff papers on collaboration between the Fund and the World Bank (Fund-Bank Collaboration and the Adjustment Process - Issues for Consideration (SM/84/242, 10/30/84), and Fund-Bank Collaboration - A Further Progress Report (SM/84/210, 8/27/84; and Cor. 1, 11/15/84)). The papers had been shown to the World Bank staff and incorporated their comments, as appropriate.

Although there were some differing views about the intensity and scope of the desired increase in collaboration between the two institutions, Executive Directors agreed that the guidelines drawn up in 1966 and 1970, and reaffirmed in 1980, continue to provide an appropriate and relevant framework in which collaboration between the Fund and the Bank can continue and can be further developed.

I shall make a few general remarks before taking up specific suggestions put forward.

1. While both institutions obviously work to promote growth and economic prosperity, Directors stressed that the Fund and the Bank have different mandates, different functions, different financial structures, and different expertise. In this respect, a number of Directors stressed that the Fund's focus on balance of payments management is not restricted to its lending activities, but also extends to the surveillance that it conducts with all its members in accordance with Article IV. The task of surveillance places on the Fund Executive Board the responsibility of formulating an international view on the appropriate mix of balance of payments adjustment and financing in each country and throughout the system. The international community as a whole must guard against severing the consensus on this important subject that has been so laboriously forged over the years. In current circumstances, in which balance of payments difficulties persist in many member countries, it is particularly important for the Fund to continue to discharge its lending and surveillance responsibilities in order to help in restoring a viable balance of payments position in member countries.

2. Beyond the particular domains of responsibility of the Fund and the Bank, there is a large area where their concerns overlap, and where close cooperation is of the utmost importance. Directors emphasized the deep complementarity between many of the activities of the two institutions. Strengthening the balance of payments and restoring growth require sustained implementation of the right policies in certain areas--exchange rate, monetary, fiscal and foreign borrowing--but correct policies in these areas are not always enough; other structural and

supply-oriented policies can be crucial in reinforcing a balance of payments adjustment program. The process of adjustment in some countries also requires financial support from other sources on appropriate terms, as well as the implementation of appropriate policies in the Bank's sphere of interest. It was generally emphasized that complementary action, coordinated with that of the Fund, is often required in such matters as the design of investment programs, policies on individual domestic prices, institutional reform, systems of protection, the development of financial systems, and the rehabilitation of public enterprises, to cite a few examples. In addition to its work in supporting development projects, the Bank's structural adjustment and sectoral lending can provide vital policy support for Fund programs. Furthermore, the Bank's efforts to ensure new, additional flows of finance on terms compatible with the development process can provide major underpinning to balance of payments adjustment.

3. Directors stressed the need to avoid cross-conditionality, although they agreed on the importance of complementarity and mutually reinforcing assistance from the two institutions. As Directors noted, the lending activities of each institution must be in accordance with the standards laid down in their respective Articles and by their respective Executive Boards; they cannot and must not be subject to veto by the other institution. At the same time, it was recognized that shared concerns should not be equated with cross-conditionality, especially in a world where the concerns of the Fund and the Bank in countries are so often parallel and of paramount importance. Executive Directors, in reaching decisions on specific matters, should be fully informed of the circumstances surrounding the relevant decisions of the other Board. But Directors agreed on the need to preserve the principle of separate accountability to their respective Boards of Governors and membership for any decision on the use of the resources entrusted to each organization.

4. As some Directors noted, collaboration between the Fund and the Bank is not an end in itself; it is designed to allow each institution to be more effective in helping members to resolve their problems. It is particularly important not to lose sight of this fundamental objective in focusing on the mechanics of day-to-day procedures in an attempt to improve collaboration. Efforts to coordinate the activities and diagnoses of the Fund and the Bank should not of course become a substitute for, or detract from, the need to respond quickly and efficiently to members' problems. While that is not the intention, it must nevertheless not become the byproduct of an intensified procedural collaboration.

5. A number of Directors recognized that, in the circumstances of the last few years, there has already been a considerable degree of effective daily cooperation between the two institutions. Full justice has perhaps not been rendered in the discussion today to the intensification of cooperation under present procedures, for which I can vouch personally, without wishing in any way to sound complacent and at the same time recognizing that there is room for the more intensified application of these procedures that Directors are seeking.

I come now to more specific suggestions.

Although the Board agreed in principle on the specific suggestions put forward in the staff paper, I shall touch briefly on the suggestions made by Mr. Wicks in the attachment to his statement, to which a number of Directors have alluded.

Mr. Wicks has referred in paragraph 7 of his statement to the harmonization of diagnoses, the complementarity of the contributions of each institution, and collaboration in mobilizing financial resources. Many Directors--and I myself--can broadly support the important concept underlying that paragraph. As a further gloss on that paragraph, I would also note Mr. Joyce's comment, echoed by a number of other Directors, to the effect that harmonization of diagnoses should not become a requirement in and of itself: what matters is that the reasons for possible differences in analysis should be clear and that there should be no incompatibility between the policy advice given by either institution. I can assure you that management will see to it that if, after contact between the staff of the two institutions, there remains a fundamental incompatibility in diagnoses and recommendations in a particular case, the matter will be ironed out between the two managements. I have not seen, in the six years of my tenure, one instance where such a fundamental difference could not be resolved, but if there should be such a case, after the two managements have talked it over, I would immediately bring it to the Board.

There has been no consensus on sharing the preparation of and participation in missions as normal practice. Rather, Directors encouraged the practice of Fund or Bank staff participating in missions of the other organization as appropriate. The fact that recourse to such cross-participation has been relatively limited was regretted by a number of Directors. Although it would be impractical to make it systematic, more active use could be made of such cross-participation, allowing for the different nature and length of Bank and Fund missions.

There was not much support for the suggestion that joint missions should become standard practice. The idea had appealed to me in the first years of my tenure, but over time, I have recognized the rigidities of that method, and the imposition that it entails on the member country; thus, the practice should be used cautiously but not be discarded.

As for the better coordination of the programming of missions, the two institutions should exchange information to ensure not only that their timetables are consistent, but also that the major thrust of their programming is compatible.

The Executive Board has not favored going so far as to prepare consistent country economic analyses as a single basis for Article IV reports and country assessments. What the two institutions should be doing is to continue to exchange papers, and the Fund should extend and deepen the discussion in staff reports of the Bank's involvement in a given country. It might not be feasible to move as fast and far as some Directors want, because the more we deepen the analysis, the more we need the involvement of the Bank. It is relatively simple to describe the Bank's loans and projects, but the Fund staff does not have the expertise to delve by itself into objectives and developments in a longer-term framework.

The suggestion by Mr. Wicks that senior staff of one institution participate in reviews prior to Board discussions in the other may stem from the different practice of the World Bank, entailing discussion by a management committee before proposals were submitted to the Bank Board. We would be interested to know more about the Bank's work methods in that regard before exploring Mr. Wicks's idea.

The proposal for attendance at Board discussions in each institution of appropriate staff member(s) from the other seemed basically to be aimed at obtaining a fuller understanding of the involvement of the other institution in countries to which both the Bank and the Fund were providing financial assistance. As far as Bank staff attendance at Fund Board meetings is concerned, I understand that Directors are prepared to reaffirm the invitation extended in 1970, for ad hoc, selective attendance at discussions of countries in which both the Fund and the Bank have programs of financial assistance. A number of Directors expressed the expectation of reciprocity on the part of the Bank with regard to staff attendance at Board meetings of the other institution. That applies also to the exchange of notes suggested in the staff paper as a way to facilitate the expression of specific concerns and questions by Executive Directors. Active participation in Fund Board meetings by Bank staff, as opposed to attendance as observers, has not received the necessary support in the Executive Board.

Regular reviews in the Bank Board of the overall performance and objectives of Bank programs in a particular country are of course a matter for the Bank. Close contacts between each constituency's Bank and Fund Executive Directors, the suggestion that Executive Directors of one institution be appointed as Temporary Alternate Executive Directors of the other, and informal joint meetings or seminars are matters for Executive Directors.

With regard to the various changes in domestic arrangements suggested by Mr. Wicks, it would be appropriate to wait until the World Bank has discussed Fund-Bank collaboration before the President and I consider what steps can be taken. I can assure Mr. Wicks that we are going to look at his suggestions, as well as others that were put forward in the discussion. I am sure that possibilities exist for reducing duplication of effort by the two institutions, and to improve coordination in such fields as technical assistance and training, and work on debt statistics.

The suggestion for an annual joint report to the Interim Committee and/or Development Committee is more an issue of policy than of domestic housekeeping, and it has not been supported. May I add that such a formalistic move does not seem appropriate. We do not need more reports; we need more effective cooperation.

The Board will of course come back to the matter of Fund-Bank collaboration after the Bank Board has examined it.

In conclusion, I should like to mention that another useful way to promote cooperation between the two institutions in the future would be for Executive Directors to make known to me, or to the Deputy Managing Director, specific cases in which they believe that collaboration between the Fund and the Bank has not been adequate.

I would also have appreciated having the views of Executive Directors, during the present discussion, on how the two institutions could, by enhancing the complementarity of their activities in specific areas, carry out their respective mandates more effectively. For instance, a major issue that constantly arises when the Fund designs programs is the need to rehabilitate public sector enterprises. Obviously, such reforms, which have to resolve a wide variety of problems, from management to divestiture, fall more within the province of the World Bank. It would be interesting to learn how the World Bank can use its expertise to address these problems, taking into account the time frame of Fund programs. What does this entail for the World Bank in terms of its operational practices? Can the World Bank provide financial assistance in a way that would mesh with the more limited role that the Fund can play, both in respect of the periods covered by its programs and the catalytic nature of its support of those programs? Could the World Bank provide more

> quick-disbursing funds that would mesh into Fund programs? Is it perhaps more appropriate to emphasize sectoral or project lending, including, in particular, rehabilitation of existing investment to deal with some of the problems being experienced in certain regions of the world, such as Africa? These are specific, practical problems with policy consequences for each institution, which it would be useful for us all to ponder further.

Mr. de Vries recalled that information had been sought from the World Bank on various occasions when both the Fund and the Bank were providing financial assistance to a country; yet so far there had been no response to the open invitation extended by the Fund in 1970 to the Bank to send an observer to discussions in the Executive Board of Article IV and other staff reports. The Chairman had reaffirmed that invitation, but he wondered how the Bank staff could provide the necessary information if they were not to be permitted to answer questions. After all, Bank and Fund staff attended meetings of consultative groups and the Paris Club; it would be helpful to agree at the present meeting that Bank staff members should be invited to attend at least those discussions in the Executive Board on matters relating to countries whose debt was being rescheduled.

The Chairman remarked that he had been summing up the sense of the meeting. The agreement that had been reached on attendance by Bank staff members at Board meetings as observers would probably evolve based on experience.

The Director of the Exchange and Trade Relations Department commented that a procedure already existed for conveying to the Bank staff the questions raised by Executive Directors. The Bank had given every assurance about its ability to respond to such questions in full, and the replies would certainly be given to the Fund Board. It should be noted that the Executive Board of the Bank had not yet decided when it would take up the matter of Fund-Bank collaboration.

The Secretary noted, in response to a question by the Chairman, that the Deputies of the Group of Ten, as part of their preparatory work for the spring meetings of the Interim and Development Committees, had asked to receive the staff papers on Fund-Bank collaboration.

Mr. Wicks asked whether the staff papers should be transmitted together with the summing up of the Executive Board's discussion.

Mr. Malhotra said that as he understood it, the normal procedure was that the Executive Board should not be a party to the transmittal of staff papers as such.

The Executive Directors agreed that only the staff reports should be transmitted.

Group of Ten - Release of Information

The Executive Board approves the release of the staff paper on Fund-Bank Collaboration and the Adjustment Process--issues for Consideration (SM/84/242, 10/30/84), and a further progress report on Fund-Bank collaboration (SM/84/210, 8/27/84; and Cor. 1, 11/15/84) to the Deputies of the Group of Ten.

Adopted November 28, 1984

The Executive Directors concluded for the time being their consideration of the issues relating to Fund-Bank collaboration.

APPROVED: August 27, 1985

JOSEPH W. LANG, JR.
Acting Secretary