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To: Members of the Executive Board

From: The Acting Secretary

Subject: Development Committee - Section on IMF/IBRD Collaboration

At the conclusion of the meeting of the Committee of the Whole on the Development Committee (83/2, 8/1/83), in responding to a question, the staff explained that "...some IBRD Executive Directors had suggested that in his report on various Bank activities, the President of the IBRD should pose some collaboration issues from the Bank's viewpoint, and the Acting Chairman of the Bank Committee had confirmed that that action would be taken. He had also confirmed that the Managing Director of the Fund would have an opportunity to see the draft section before it was circulated. The section would be part of a written report that would be circulated to World Bank Executive Directors for discussion toward the end of August 1983. It was not clear whether it would be necessary to bring the matter back to the Fund Committee of the Whole; if the World Bank Executive Directors decided to retain the draft section, it would be appropriate for the Managing Director to make reference to Fund/Bank collaboration in the oral statement that he would make to the Development Committee."

The Bank staff, in consultation with the Fund staff, has prepared Section VI "Implications for IMF/IBRD Collaboration" which is one of several sections of the Report by the President of the World Bank on Current Development Issues. Prior to its issuance by the Bank, the draft section was reviewed by the Fund management. The text of the section is attached for the information of Executive Directors.

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VI. Implications for IMF/IBRD Collaboration

48. The deteriorated economic situation confronting the developing world in recent years has led the Bank and the International Monetary Fund to introduce major policy innovations. Access to Fund resources has been enlarged under stand-by arrangements and the extended Fund facility. In addition, the Fund has given more attention to policies aimed at increasing aggregate supply. Similarly, the Bank has taken steps to increase the flow of resources to developing countries under Structural Adjustment Lending operations introduced in 1980, and other parts of its Special Action Program, introduced this year. In doing so, the Bank has given greater emphasis than previously to policy and institutional reforms which are essential to greater efficiency in the use of national resources. It has, for example, increasingly attempted to stimulate efficient import-substitution (particularly of energy and food) and to enhance export capacity.

49. The introduction of these policy initiatives by both institutions has clearly brought the Fund and the Bank into a close and complementary relationship. This has required that the modalities of collaboration between the staffs of the two institutions, which were formally agreed in 1970 and reconfirmed in 1980, be implemented more strictly and, where necessary, reinforced. Management in both the Fund and the Bank has maintained a continuous review of the working of these collaborative arrangements and has reported regularly to their Boards of Executive Directors both in the context of specific country operations and more generally.

50. In concluding the 1980 review of collaboration, the two managements reconfirmed that the Fund has responsibility for policies relating to balance of payments adjustment and that the Bank has responsibility for

evaluating development priorities, the composition of development programs, and the appropriateness of sector policies. The Fund is guided by the Bank on development matters and the Bank is guided by the Fund on balance of payments adjustment policies.

51. In the current very difficult international economic environment, it has been clear to both institutions that programs for the achievement of medium- and long-term growth and development could not be effectively pursued by member countries until they had formulated adjustment programs to deal with immediate financial pressures. The implementation of macroeconomic policies designed to bring about a more sustainable balance between aggregate supply and demand has been a necessary priority in these circumstances.

52. It has, however, been recognized by both the Fund and the Bank that the adoption of appropriate macroeconomic policies will, in many cases, have to be complemented by the implementation of major structural reforms in order to achieve the longer-term objective of fostering broad-based growth in output and employment in the context of a sustainable evolution of the balance of payments. For countries facing large debt service burdens, the need to combine adjustment with growth has acquired particular urgency. Both institutions have therefore placed emphasis on policies that will facilitate an increase in production by encouraging savings and investment and by ensuring that available resources are utilized more efficiently. In this context, policy questions such as the exchange rate, pricing policies, interest rates, and the structure of public sector expenditure play a crucial role. In addressing these issues, the Bank and the Fund coordinate their efforts and rely on each other for policy assessments in their respective areas of competence.

53. One of the areas for which the Bank has primary responsibility is the assessment of public sector expenditure programs. For many countries, particularly low-income countries, the last few years have been particularly difficult and the impact of adjustment has fallen heavily on public investment and other expenditures on economic and social services. Sometimes this has had the positive result of eliminating expenditures of low priority. However, more attention now needs to be given to programs which will continue to meet the needs of macroeconomic policy but which are less costly in terms of their impact on long-term economic and social development -- improved sectoral allocation of investment resources; more cost-effective selection of projects and particularly the development of low-cost and replicable forms of expenditure in the areas of health, education and housing; better targeting of expenditure on poverty groups; wider implementation of efficient and socially justifiable user charges.