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INTERNATIONAL MONETARY FUND

Committee of the Whole for the Development Committee

Meeting 95/1

10:00 a.m., September 8, 1995

M. Camdessus, Chairman
A. D. Ouattara, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
M.-A. Autheman	A. Fayolle
J. Bergo	
L. E. Berrizbeitia	V. J. Fernández
I. Clark	
	Y. Patel, Temporary
H. Evans	
K. P. Geethakrishnan	W. Hettiarachchi
J. E. Ismael	L. M. Cheong
D. Kaeser	
	G. P. Ramdas, Temporary
	J. Hamilius, Temporary
	A. Barro Chambrier
	J.-C. Obame, Temporary
G. Lanciotti	N. Coumbis
K. Lissakers	B. S. Newman
H. Mesaki	
	H. Golriz, Temporary
C. Saito	A. G. Zoccali
S. Schoenberg	
	Y. Y. Mohammed
D. V. Tulin	
E. L. Waterman	J. Kang
	M. Petrie, Temporary
	O. Havrylyshyn
Zhang M.	Wei B.

L. Van Houtven, Secretary and Counsellor
R. Bradshaw, Assistant

Also Present

Development Committee: A. Shakow, Acting Executive Secretary; T. Kivanç. IBRD: E. Ablo. African Department: J. A. Clément, P. Doyle, K. K. Meyers, V. Santiprabhob. External Relations Department: P. J. Bradley. Fiscal Affairs Department: K.-Y. Chu, S. Gupta. Legal Department: W. E. Holder, Deputy Treasurer. Policy Development and Review Department: J. T. Boorman, Director; B. V. Christensen, C. Puckhatikom. Secretary's Department: K. S. Friedman, A. Mountford, W. S. Tseng. Office of the Managing Director: G. R. Saunders, Personal Assistant. Advisors to Executive Directors: B. Andersen, S. S. Farid, A. R. Ismael, R. Kannan, S. O'Connor, R. Rainford, R. von Kleist. Assistants to Executive Directors: P. I. Botoucharov, M. A. Brettschneider, S. Fukushima, D. Giga, W. C. Keller, E. Kouprianova, J. Mafararikwa, F. A. Schilthuis, S. Simonsen, T. Sitorus, E. Zamalloa.

1. DRAFT PROVISIONAL AGENDA; AND REVIEW OF PAPERS FOR FALL 1995 MEETING

The Executive Directors, meeting as a Committee of the Whole, considered the draft provisional agenda for the meeting of the Development Committee on October 9, 1995 (EB/CW/DC/95/3, 8/25/95), together with papers on the implications of the Social Summit for the World Bank and the Fund (EB/CW/DC/95/2, 8/21/95), recommendations to strengthen the Development Committee (EB/CW/DC/95/4, 8/29/95), and the proposed new procedure for the preparation and approval of the Development Committee's communiqué (EB/CW/DC/95/5, 8/29/95).

The Executive Secretary of the Development Committee, Mr. Shakow, made the following statement:

> At their Committee of the Whole meeting on Tuesday, World Bank Executive Directors considered the same group of papers you have before you today. They approved without change the provisional agenda for the October 9 meeting of the committee, as well as the one-page set of recommendations to strengthen the committee and my note on preparation of the communiqué. We still have a long way to go, but I see these as important practical steps in the direction of improving the effectiveness of the committee.
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> Bank Directors also offered their views and suggestions on the joint Bank-Fund issues paper on implications of the social summit for the two institutions. Some members expressed strong concerns that the paper focused too narrowly on public expenditure issues and not sufficiently on resource mobilization and resource transfer issues. Other members supported the focus on public expenditures and believe the issues put on the table for ministers were challenging. A number of Executive Directors emphasized the need to ensure that the paper, when revised, remained sharply focused and not attempt to cover too broad a canvass, given our experience with such papers in the past. In this connection, it was widely recognized that many summit conclusions were relevant to the work of the Bank and the Fund, but that only a small number of specific issues could and should be addressed by ministers in a brief Development Committee meeting. Thus, several Directors suggested that some of the other Bank-related issues emerging from the summit conclusions might be taken up by the Board itself at an appropriate time.
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> It was noted that the debt and IDA issues on the October 9 agenda were also relevant to implementation of social summit objectives. Mr. Wolfensohn asked that the staff revise the paper and its title to reflect a number of the Directors' comments. In particular, he suggested that additional material be introduced to stress how this paper's focus fits into the broader context of

major summit conclusions, making clear that, in selecting one key issue, it was recognized that other issues were also of great significance.

As you know, the plenary session on October 9 will last no more than one hour and consist only of statements by the Chairman, Mr. Camdessus, Mr. Wolfensohn, and on this occasion the Secretary-General of the United Nations. I am pleased to report that the Secretary-General has now confirmed that he will be able to attend.

In light of this changed format, several Directors asked when their ministers would be able to comment on the issues raised by the social summit topic, in addition to their prepared statements. Mr. Wolfensohn asked that I mention this possibility to Chairman Kabbaj along with the suggestion that, if needed, the first few minutes of the restricted session might be set aside for this purpose, before moving on to the multilateral debt and IDA issues. It is also possible that the luncheon discussion will offer further opportunities to take up these issues in the context of the future of the Bank discussion to be led by Mr. Wolfensohn.

Mr. Wolfensohn reiterated several times his strong commitment to making this an interesting, substantive, and productive meeting for all concerned, a view I know the Chairman and Mr. Camdessus share.

Mr. Clark made the following statement:

The Social Summit was a major exercise in increasing the global political consensus on the need for reducing poverty. The extent to which the increased consensus can be exploited depends very much on the kind of practical follow-up that the joint Fund/Bank paper seeks to address. The effort to draw out the specific operational implications for the Bretton Woods Institutions is welcome.

Before addressing the specific issues usefully highlighted by the staff for discussion, some general observations might be in order.

The joint paper correctly implies that poverty reduction is first and foremost a challenge to the concerned national society and its government. It is trite to say that external forces cannot by themselves deliver poverty reduction in any lasting way to a people. At best they can only support, technically and financially, a process of poverty reduction that is owned and driven from within the local society, whether through the governmental machinery, or through nongovernmental forces, or

both. Accordingly, it is on a foundation of domestic commitment that a partnership for poverty reduction has to be built between the local society, bilateral donors, and multilateral agencies.

Beyond this, it is also important to stress that if poverty reduction is to be permanent and well--grounded, it is not sufficient simply to throw money at the problem--whether local resources generated from domestic budget restructuring or from external aid resources. The deployment of resources must be anchored to, and reinforce, a people's own drive to shape their lives in a self-reliant direction, and should ideally be linked to policies that create an environment that enables them to do so.

The strong, almost exclusive, focus of the joint paper on public expenditure review and budget restructuring, as a key operational avenue for improving the poverty situation, makes sense when placed in this wider context. In effect, the important role that public expenditure review and budgetary restructuring can play should be an integral part of a broader strategy. This broader strategy needs to be developed on three levels: first, ongoing diagnostic studies to deepen understanding of both the common and nationally-specific root causes of poverty; second, the formulation of policies, programs, and projects aimed not only at direct alleviation of poverty but more critically at equipping people with the capacity to propel themselves out of poverty; and third, the mobilization of the resources, instruments and vehicles for action.

It is against this broad perspective that one can look at the issues raised in the joint paper for discussion. As the questions overlap considerably they can be commented on as a whole.

One can agree in general that the Fund and the Bank should address attention to the composition of expenditures, including collaboration between the two institutions to exploit their respective comparative advantages. Both the Fund and the Bank should continue to encourage improved transparency of the data collection process relating to potentially unproductive expenditure. It is questionable, however, whether surveillance needs to be approached with the same level of detail for all countries. One would expect that rigorous examination of the details of expenditure would be most relevant in cases where the need to reduce poverty is particularly urgent and pressing, and where expenditures on unproductive outlays constitute a high proportion of public expenditure. In this connection, the discussion of military expenditures could more explicitly recognize the distinction between enhancing the Fund/Bank analytical role on unproductive expenditures and how the Bretton Woods institutions might follow up on this analysis. It would be

useful to examine the appropriate division of labor between the Fund and the Bank in addressing these issues. We would recommend recasting the relevant questions as follows:

How can the Bank and Fund contribute to improving the transparency of the data collection process on unproductive expenditures?

How can specified targets related to unproductive expenditures be incorporated into a country's budgetary process?

What are the respective comparative advantages of the Bank and the Fund in addressing these questions?

In those situations where poverty alleviation is less urgent, and where the structure of expenditure is not otherwise glaringly inappropriate, the Bank and the Fund, while offering broad advice, should not seek to micro-manage the details of expenditure.

The staff has usefully flagged the question of alternative or complementary tools for measuring commitment and performance with regard to poverty reduction. We should indeed remain conscious of the possibility of such other tools. Consideration of the taxation side, for example, may be relevant here. Is the relative burden of direct and indirect taxation on the rich and the poor appropriate? What is the scope for adjusting the relative burden without encouraging tax evasion and creating disincentives to work and production? In another area, are governments maintaining adequate progress in land reform, where needed, as part of the overall strategy for poverty reduction? It does appear that there are possibilities in these additional areas for complementary tests of commitment to poverty reduction.

It is useful that the issues highlighted for discussion by Minsters address the question of external support to complement domestic efforts and resources in the struggle to reduce poverty. Here there are abiding questions that are always with us as to quantum, conditionalities, and vehicles. The issue of the deployment of the peace dividend, among other things, has a bearing on the matter of quantum. Ministers can usefully be asked to consider whether there is not scope in donor countries for applying part of any peace dividend to reducing poverty globally, in addition to deploying it for the important task of strengthening their fiscal balances and reconfiguring the human and physical capital of their societies. In fact, this is part of the wider question of movement toward the long-standing UN-adopted target for official development assistance to reach 0.7 percent of GDP of donor countries.

In the area of conditionality, a key dilemma arises. Governments of countries with serious problems of poverty must be pressed to pursue appropriate budget review and restructuring to eliminate wasteful expenditure. However, where governments fail to do this and forfeit external support, it is the poor that continue to suffer. They suffer both on account of the inadequacy of domestic policy and by being denied the benefit of external assistance. An issue for examination therefore is how far should the failure of governments to adopt appropriate measures affect the provision of external assistance as such, as distinct from the channels through which assistance flows. Accordingly, Ministers might usefully be asked to consider whether they support efforts, in appropriate circumstances, to identify and exploit opportunities for providing assistance for poverty reduction through non-governmental channels, utilizing domestic institutional resources which meet stringent tests of soundness and reliability.

Ultimately, the basic route to poverty alleviation is sustainable growth under the influence of sound macroeconomic policies, along with increasing participation rates in the productive labor force. As an Institution with a mission to promote growth-oriented macroeconomic stabilization, the objectives of the Fund have a direct bearing on poverty reduction, though this perspective is often clearer in the context of the medium to long term rather than in the context of the short run. The essential challenge for the Fund, as regards poverty reduction, is that in its core tasks of surveillance and designing adjustment programs it should continue searching for ways to make macroeconomic stabilization in poor countries more and more growth-oriented.

Within this context the Fund can be said to have been honing its own special instrument, the enhanced structural adjustment facility (ESAF), to help the poorest countries get on the path of sustainable growth, and thereby create for themselves the potential for well-grounded poverty reduction. It is fortuitous that we are looking at the implications of the Social Summit for the Bank and the Fund at a moment when the Fund Executive Board is reviewing the future of the ESAF. The question of what special contribution the Fund can make to poverty reduction gives added point to the general thrust of efforts toward making the ESAF a permanent self-financing instrument, and to the search for an appropriately designed interim ESAF, pending the time when the facility could become self-financing.

Mr. Schoenberg made the following statement:

The staff paper on the implications of the Social Summit of the World Bank and Fund is largely well written, focused and laudably short. Since development issues are much more the domain of the World Bank than of the Fund, I can be rather brief.

Concerning the role of the Fund with respect to poverty reduction, I agree wholeheartedly with the staff's assessment that, and I quote, "The Fund contributes to this objective by fostering conditions for sustainable high quality economic growth which is necessary for poverty reduction of over the medium term." To rephrase this, it is absolutely clear that poverty reduction cannot itself be a primary goal of Fund policy, but we can help to put at least some of the conditions in place, in particular macroeconomic stability, which then will enable member countries to achieve high-quality growth. Since the staff paper deals predominantly with public expenditures, I will also focus my following remarks on this field.

Public expenditures can be viewed from two distinct angles, namely their overall level in relation to GDP, and their composition. In both cases, it is impossible to identify a one-fits-all ideal solution. Both the level and the composition of public expenditures are determined by the unique structure and social contract of each member country, often through a complicated and cumbersome political process. Everybody familiar with this year's budget process in the United States, for instance, will recognize this immediately.

It is not therefore possible to make a judgment that public expenditure or some components of public expenditure have to be increased in a general fashion in all cases. A more efficient use of resources, which includes better targeting, could in many instances even allow for a reduction of overall government expenditure. I would also like to warn against the implicit assumption made in the paper that the attainment of the fiscal objectives in Fund-supported programs can in all cases be achieved merely by a restructuring of public expenditures. In many instances, reduction of overall public expenditures will be unavoidable.

In this context, the demand expressed in paragraph eight of the paper--that the Fund will need to pay increased attention to the impact on poverty and unemployment of adjustment measures--raises the risk that unavoidable macroeconomic adjustment necessities would be subordinated to social considerations and would be financed by monetary resources. Insofar, it is necessary, in our view the differences in the mandates of the two Bretton

Woods institutions should be more clearly spelled out. With respect to the role of the Fund, in the context of public expenditure and poverty reduction, this should mean that the paper should stress that the specific task of the Fund is to foster macroeconomic stability as a precondition for lasting poverty reduction.

As for the composition of public expenditure, I am very doubtful whether this is a field in which the Fund should venture further than it has already. Under this point is a question from Mr. Clark's statement, which I quote, "Is the relative burden of direct and indirect taxation on the rich and poor appropriate?" I would have trouble answering that question for my own country. I really do not think that the Fund can convincingly answer this or similar questions for its diverse membership.

My last point concerns accountability. We recognize member governments as sovereign. Because of this sovereignty, member governments alone make their budget choices and are responsible toward their people for their choices. I do not think that the Fund should try to wrest this responsibility from member governments. Such attempts would only risk making the Fund a scapegoat for social conflicts, which have their true origin earlier, in domestic policy deficiencies, particularly delayed adjustment policies.

Mr. Obame made the following statement:

We welcome this meeting of the Committee of the Whole for the Development Committee. We attach a great importance to the issues that have been selected for the forthcoming meeting of the Development Committee, as they call for concrete and timely action on the part of international financial community.

Regarding the joint staff paper on the implications of a social summit for the World Bank and the Fund, let me say that we found this paper well focused. My authorities view the action program of the world summit for social development, adopted last March in Copenhagen, as critical for creating conditions for sustained economic growth and sustainable development worldwide, while at the same time enhancing productive employment, reducing poverty, and fostering social integration. There is no doubt that the international and multilateral institutions, in particular the Fund and the World Bank, should take the lead for the realization of these objectives. In this connection, and as emphasized during the world summit for social development, adequate investment in human resources is the key element for sustainable development. We therefore encourage the two Bretton Woods Institutions to devote more attention to that area.

Another critical area where the Fund and the Bank could make a difference is the promotion of adequate institutional capacity and the provision of adequate infrastructure in the member countries. Addressing this issue will contribute greatly to the enhancement of ownership of a program supported by the Fund and the World Bank. The funding of this program, particularly the continuation of ESAF operations, is critical--as was noted by many Directors during our discussion on that subject last Wednesday.

Turning now to the issue of multilateral debt, we welcome the importance that the international community is giving to this issue since the spring meetings. There is clear evidence that the increase in the share of multilateral debt service in many of our countries is exacerbating their debt profile and constraining their economic prospects. In this regard, we urge the two Bretton Woods Institutions to take the lead in developing a comprehensive strategy that will speed up the resolution of this problem.

Finally, on IDA, we are very much concerned with the present situation. It has been amply demonstrated that most low-income countries lack alternative sources of financing and rely on resources provided by IDA, which has been instrumental--in connection with ESAF programs--in designing programs with a poverty focus in the countries of my constituency. Any reduction in its resources will cause extreme hardship to these countries.

To conclude, we believe that the papers prepared for our ministers constitute among other documents, a good basis for concrete guidelines to our Executive Board. We do hope that these guidelines will reflect the need for enhancing international cooperation among member countries.

Mr. Ramdas made the following statement:

We broadly support the actions proposed in the Social Summit action matrix presented by the Bank and Fund staffs. Three issues that contribute to poverty--high debt obligations, the distribution of benefits from government spending, and institutional capacity building--should be highlighted within the proposed list of actions. Inter alia, how benefits from public spending are distributed within the society by sex, age, location, and income groups should receive as much attention as the composition of public expenditures. Also, increased emphasis on improved capacity to implement and manage projects in the social and economic sectors could strengthen budgetary efforts to reduce poverty.

Mr. Evans made the following statement:

I think we should all recognize and welcome the efforts that are being made to revitalize the Development Committee, particularly those of Mr. Wolfensohn, as something that the G-7 group of major industrial countries encouraged at Halifax. The Development Committee will become eventually, I think, much more a forum where ministers focus on issues of importance to the Bank and give guidance to the Bank, in much the way that the Interim Committee does so effectively for the Fund.

Mr. Shakow provided us with an account of the discussion of the subject by the World Bank's Directors the other day, including the proposed revisions to the paper. In my view, the paper needs to remain tightly focused and organized if it is not to suffer the fate of previous papers prepared for the Development Committee, which have attempted to cover everything and, in so doing, have totally failed to provide any focus for discussion. I will encourage my minister, as I hope others around this table will do with their ministers, to include his views on the implications of the Social Summit for the Bank and the Fund in written remarks for the upcoming meeting.

I understand and agree with Mr. Schoenberg's concerns about countries being accountable for the results of their policies, but I also believe that we have seen in the Fund in recent years a bigger effort to encourage ownership of those results on the part of program countries. I hope that message comes across from the paper. If it does not, a bit of redrafting might be in order. With regard to the specific point, in paragraph eight, about what actions the Fund needs to take, my impression is that the Fund is already moving in the proper direction, and the paper might want to say that clearly. Finally, I share my colleagues' concern about the importance of the debt issues and the role of the international financial institutions in helping to solve them.

Ms. Lissakers made the following statement:

I share Mr. Evans's pleasure at the effort to revitalize the Development Committee. I think it should play a central role in trying to lay out clearly the development priorities on which the entire international community should focus. It should also play a central role in coordinating the activities of the multilateral development institutions and the bilateral donors, especially where they fit in with the Fund's work.

I do think the Fund has a key role to play in affecting social policies. It has begun to perform its role better in recent years; in that regard, our policy advice on budgetary

issues, for example, has become more nuanced and gives much greater emphasis to the quality of deficit reduction, where that is called for, and to the structure of public expenditures. I also welcome the agreement between the Bank and the Fund about improving and coordinating data gathering in this area.

While we may all agree that the ultimate responsibility for results falls to individual governments in setting their own course, I believe the Fund Board and the staff can play a very constructive role in helping governments. Particularly where administrative capacity is weak, we can assist them to understand the trade-offs among different policy choices and to understand the interplay between financial stabilization, on the one hand, and the long-term goals of growth and poverty reduction, on the other. We can help them as well to develop the internal managerial and administrative tools needed to carry forward an effective monetary policy. As I say, we really are giving much greater emphasis to that approach, but I think that the social summit has helped to sharpen our own thinking, and the work of the Development Committee will carry that forward. We have also begun the debate on the very vexing question of multilateral debt reduction, and I see the social summit and this paper as an important piece of that effort.

In a related area, I believe that issues of the labor market and worker rights will come up more frequently. The Bank mentions UNESCO and a number of other UN agencies with which it should cooperate closely, in that context. I think the International Labor Organization (ILO) should be added as well. These issues are more directly a concern for the Bank than for the Fund, but the Fund, in fact, does take a view sometimes on labor policies and labor legislation, as in the Article IV consultation with Chile that we will be discussing this afternoon. We are, at least tangentially, involved in these issues, and I see them as important issues of development and poverty that we should not neglect.

The Chairman noted that he and the Development Committee Chairman, Mr. Maystadt, had suggested that Mr. Hansenne, his counterpart at the ILO, should be invited attend the lunch of the Interim Committee in order informally to provide the ministers with the opportunity to better appreciate the interrelatedness of those issues.

Mr. Petrie made the following statement:

Much of what I had to say reflects the comments made earlier by Mr. Schoenberg, in particular that the Fund's contribution to poverty reduction should be seen as taking place through fostering the macro conditions for sustainable growth, rather than advising

on the detail of social policies. Experience shows that macro-economic stability is vital to poverty reduction, and it is critical in our view that the Fund focus its efforts on its core role, and not be diverted into other areas that are already well-addressed by other international institutions.

The Fund deals with fiscal problems that threaten macro stability, and thus Fund adjustment programs create pressures affecting social policy. This means the Fund often needs to consider the level and sustainability of social spending, and that it often needs to work very closely with the World Bank so that the macro and micro aspects of fiscal policy are well integrated. We do not consider, however, that the Fund should go a step further and become involved in the detail of social policy design.

In presenting the issue to Ministers, we have some drafting suggestions aimed at assisting their discussion. It would be helpful if it were made clear just what is the Fund's current role in the area of social policy, and therefore what a possibly expanded role might involve. One part of the paper says that the Fund will need to take initiatives directly involving social policies. I think it envisages the Fund as already moving in this direction. If ministers are being asked to make a decision that the Fund become more involved, they need to have a clearer idea just how involved it is already.

Furthermore, it is not clear what the paper means in the statement that the Fund might focus more on the composition of public expenditure, but will rely on the expertise of the Bank and other institutions in doing so. Does this mean that Fund reports might merely note the conclusions reached by others on the composition of public expenditure, or is more substantial effort envisaged? Again, if we are asking ministers to come up with an answer here, we have to make it very clear for them what it is that we are asking. Furthermore, there are several other areas in the paper where a clearer differentiation is needed between the different mandates and roles of the Bank and Fund.

Mr. Mohammed made the following statement:

I will try, to the extent possible, to avoid getting into a substantive discussion on the issues before us, as they are intended to form a basis for such a discussion by Ministers. With this in mind, I shall limit myself to the following brief observations.

I agree with Mr. Clark that the issues highlighted for discussion by Ministers usefully address the question of external support to complement domestic efforts aimed at reducing poverty.

However, issues related to external support are not framed in the paper in a manner that is conducive to eliciting ministerial consideration of the important point made by Mr. Clark, namely, the prospects of utilizing the peace dividend in the global effort to reduce poverty, and, more generally, in helping donor countries move toward the long-standing ODA target of 0.7 percent of GDP.

Mr. Geethakrishnan made the following statement:

I am pleased that, at last, attempts are being made to make the Development Committee's work more sharply focused and to put it on par with that of the Interim Committee. It is a welcome development and I applaud the steps being taken.

My main comment relates to the staff paper's focus on public expenditure. We in the Fund have started devoting more and more attention to this concept of the public expenditure and its various aspects. If we look at the content of discussions today on country and policy matters, as compared with ten years back, we do find a lot more mention of these aspects. So I am not opposed to discussion of public expenditure and its role in poverty reduction.

However, the Board's discussions have also revealed that it is a very complex subject; the allocation of public expenditure to the various sectors reflects national priorities, the particular social structure, and so forth. If it were a simple matter, we in the Fund would not be examining the relationship between our policies for strengthening the balance of payments situation, on the one hand, and the impact of those policies on growth, employment, and poverty reduction, on the other. My worry is that, were we to address the issues of public expenditure in a very narrowly focused manner, our assessment of the subsequent policy results would be totally wrong. We need to see public expenditure in the total context of the society, the totality of government policies, incomes structure, levels of development, and so on.

I was under the impression that the paper was going to be recast after the last discussion by the Directors of the Bank. However, the staff seems to be saying otherwise, that it will be revised only slightly. If so, we would be missing the opportunity to present the expenditure issues in the larger context. I suggest that the focus should be broadened to reflect a much wider spectrum of policy objectives.

The staff representative from the Policy Development and Review Department affirmed that the Fund staff would work with the Bank staff to take into account Directors' comments in revising the joint paper, attempting to provide a fuller context to the complex issues involved in

looking at public expenditures. However, a balance needed to be struck between describing the complexity of the issues, and still providing a sharp focus for ministers' interventions. The revised paper would nevertheless incorporate some of the specific suggestions made in Mr. Clark's statement, in particular relating to conditionality, which bore on the comments made by Mr. Schoenberg about accountability and by Ms. Lissakers on sovereignty.

The Fund approached public expenditure issues from the perspective of fiscal sustainability, focusing on analysis, data collection, and assistance to the authorities, all in the context of more fully assessing the overall macroeconomic and balance of payments situations and prospects, the staff representative noted. The staff's views on these issues, and its work with the authorities, had been guided in recent years by the Board's own expressed views on the relationship with macroeconomic aspects of social policies, military expenditures, or other unproductive expenditures. Staff efforts had been directed to helping national authorities demonstrate their commitment to sound expenditure policies, an important factor to which donors were paying more attention in their aid decisions. Assisting counties to bring more transparency to the process of expenditure decisions was highly important in that regard. The value of that assistance notwithstanding, the staff did not suppose the Board wished to see these aspects become part of conditionality in Fund programs.

That said, however, many countries were more ready today than a few years previous to demonstrate their commitments in spending targets, which had been reflected in policy framework papers and letters of intent, the staff representative observed. That trend, which would offer an ever widening basis for sound expenditure decisions in the future, was reflected in the joint staff guidance note that the staff had submitted to the Board recently. That note focused on how the two staffs, from the Bank and the Fund, could work more closely to improve analysis and data collection for assessment of public expenditures and the issues surrounding them.

The Executive Secretary of the Development Committee, Mr. Shakow, noted that, assuming the approval of the Fund's Board and having already obtained the approval of the Executive Directors at the Bank, the proposed procedural guidelines for the functioning of the Development Committee would be submitted to the Committee for review at the October 9, 1995 meting. On the implications of the Social Summit, the staffs of the Bank and Fund would take into account the comments offered by the Fund and Bank Executive Directors, and would prepare a revised, but still brief and focused, paper for the discussion by the Ministers. The staffs had not yet finalized work on the other agenda items, particularly multilateral debt and IDA developments, but it was hoped these discussion papers could be forwarded to Directors and their ministers early in the next week.

The Chairman commented that the staff paper and the discussion set a quite promising tone for a high-quality discussion by the Development Committee in October, which he expected to pave the way for further similar developments in Bank-Fund collaboration.

APPROVAL: January 17, 1997