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Summing Up by the Chairman
Bilateral and Multilateral Aid Flows
and Fund-Supported Programs
Executive Board Meeting 95/49 - May 19, 1995

Directors welcomed the opportunity to discuss the implications for Fund-supported programs of the recent and prospective trends and policies regarding concessional flows from bilateral and multilateral agencies, with particular emphasis on balance of payments support. Noting that the recent pressure on aid budgets was--with the exception of a few donors--likely to continue at least for some time, Directors expressed concern about the implications for balance of payments support for the poorest countries, and also for the poorer among the countries in transition. In view of the importance of adequate balance of payments support for the successful implementation of adjustment programs, Directors urged creditors and donors to concentrate scarce aid resources on the poorer countries pursuing strong adjustment programs, including those that were supported by the enhanced structural adjustment facility (ESAF). Concern was also expressed that sufficient balance of payments support should remain available through the concessional windows of development banks.

With uncertain prospects for balance of payments support, Directors saw a need for a more cautious and transparent approach to medium-term projections for such assistance. A number of Directors stressed that programs needed to be more ambitious than in the past in terms of promoting domestic savings, while some others doubted whether that was a realistic option other than over the long term. Speakers also stressed the importance of pursuing policies that aimed at attracting private capital flows, in particular foreign direct investment.

Directors observed that increasing earmarking by many donors of budgetary support for specific social programs could reduce the flexibility of budget management. Concern was also voiced about complex sectoral conditionality in the context of recipients' limited administrative capacity. Directors stressed that the Fund should assist in efforts to coordinate donor assistance to safeguard the efficiency and sustainability of programs, and to ensure that donor support took into account the recipient country's financial and administrative capacities. The enhanced collaboration between the Bank and the Fund staffs on public expenditure issues and the strengthening of administrative capacity in recipient countries was welcomed by Directors.

Directors noted that an increasing share of aid budgets was devoted to peacekeeping operations and emergency situations. The Fund should play a critical role at an early stage in postconflict cases to help establish a sound macroeconomic framework. Fund support early on should take the form

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of technical assistance and policy advice. Fund financial assistance on a limited scale could be extended in cases where the political situation had stabilized sufficiently and where Fund financing could play an effective catalytic role for balance of payments financing from other creditors and donors.

Directors noted that donor concerns regarding good governance--that is, primarily, avoidance of corruption--and respect for human rights were likely to create further uncertainty about external financing. Differing views were expressed about the role of the Fund where inadequate financing assurances from donors arose from concerns about the political dimension of good governance in the recipient country. That was a difficult and sensitive area; we would have to examine the situation carefully, case by case, to assure a proper and constructive role for the Fund. Directors generally endorsed the view that the Fund must continue to address economic aspects of governance, especially through advice on measures to promote transparency and accountability.

Large shortfalls in external financing in some Fund-supported programs in recent years were of concern to Directors. They agreed that programs should place more emphasis, in collaboration with the World Bank, on improving members' administrative capacity. Also, Directors urged continued use of contingency mechanisms in the event that external financing fell short of expectations. Some speakers noted that the implications for the adequacy of the Fund's resources and for access policy would need to be considered in light of recent trends in aid flows. A few others emphasized the importance of strengthening members' adjustment policies. A number of Directors observed that the prospects for concessional aid flows increased the importance of addressing the multilateral debt burdens of low-income countries, including by making the ESAF a self-sustained facility.

Directors supported the role being played by policy framework papers in mobilizing external assistance and ensuring a consistent policy framework in low-income countries. As to the possible use of policy framework papers in non-ESAF cases, some Directors considered that those papers would be appropriate in the context of at least some extended arrangements. Other Directors supported the alternative of preparation by the Fund staff of internal country strategy papers, in coordination with the Bank's country assistance strategy papers, before negotiation of extended arrangements. A number of speakers urged caution on both those alternatives in view of the resource costs in preparing such documents. The staff will proceed cautiously in considering in individual cases whether the benefits of either of the options discussed would outweigh the costs involved. Several Directors advocated publishing more widely the policy framework papers, and I concur with them.

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May I take it that Directors agree to the transmission of this summing up to the Development Committee? When we meet as the Committee of the Whole, we will consider whether something more must be done in this respect.