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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 01/35

2:30 p.m., April 10, 2001

Contents

Executive Board Attendance

S. Fischer, Acting Chairman

Executive Directors	**Alternate Executive Directors**
	A.S. Alosaimi
A. Barro Chambrier	D. Ondo Mañe
	P.R. Fenton, Temporary
M.J. Callaghan	
	W. Szczuka
	R. von Kleist, Temporary
R. Faini	
D.I. Djojosobroto	
	V. Bhaskar, Temporary
	C. Josz, Temporary
	Å. Törnqvist
K. Lissakers	
	G. Bauche
	S. Rouai, Temporary
A.V. Mozhin	
	M. Beauregard, Temporary
S. Pickford	
	R. Junguito
	I. Usman
	K. Sakr, Temporary
Wei Benhua	
	P.A. Nijsse, Temporary
Y. Yoshimura	
	R. Maino, Temporary

S.J. Anjaria, Secretary
R. Gudmundsson, Assistant

Fighting Poverty and Strengthening Growth in Low-Income Countries—Draft Joint Note by the Managing Director and the World Bank President to the International Monetary and Financial Committee and Development Committee
Staff representatives: Ahmed, PDR; Bredenkamp, PDR

Also Present
IBRD: P.W. Bocock and D. Morrow, Poverty Reduction and Strategy Unit; R.O. Gilpin, HIPC Unit. African Department: A. Tahari. European I Department: F.J. Rozwadowski. External Relations Department: J.T. Irving, S. Nardin. Fiscal Affairs Department: S. Gupta, C.A. McDonald. Legal Department: B. Steinki. Policy Development and Review Department: J.T. Boorman, Director; M. Ahmed, Deputy Director; H.W. Bredenkamp, S. Brunschwig, N. Calika, J.E. Christensen, M.T. Hadjimichael, H. Lankes, D.C.F. Ross, S. Singh, H. Tadesse, J.-Y. Wang. Secretary's Department: L. Hubloue, A. Mountford, T. Turner-Huggins. Western Hemisphere Department: C.H. Mendis. Office of the Managing Director: A.A.E. Bertuch-Samuels, Special Advisor; R. Sahay, H.L. Mendis, T. Wolde-Semait. Advisors to Executive Directors: M. Kabedi-Mbuyi, Liu F., J. Ntamatungiro, H.E. Phang. Assistants to Executive Directors: S. Alcaide, G. De Blasio, T. Elkjaer, E. González-Sánchez, K. Harada, S.N. Kioa, J.K. Kwakye, A. Maciá, W.C. Mañalac, J.A.K. Munthali, B. Siegenthaler.

1. FIGHTING POVERTY AND STRENGTHENING GROWTH IN LOW-INCOME COUNTRIES—DRAFT JOINT NOTE BY THE MANAGING DIRECTOR AND THE WORLD BANK PRESIDENT TO THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE AND DEVELOPMENT COMMITTEE

The Executive Directors considered a draft joint note by the Managing Director and the World Bank President to the International Monetary and Financial Committee and Development Committee on fighting poverty and strengthening growth in low-income countries (SM/01/100, 3/30/01). They also had before them background documents on the enhanced Initiative for Heavily Indebted Poor Countries (SM/01/95, 3/27/01) and on Poverty Reduction Strategy Papers (SM/01/96, 3/27/01).

Mr. Kelkar submitted the following statement:

> This well focused document reiterates the importance the Bank and Fund place on fighting poverty and strengthening growth through the Heavily Indebted Poor Countries (HIPC) Initiative/Poverty Reduction Strategy Paper (PRSP) process while simultaneously stressing the cooperative nature of this effort. We broadly agree with the thrust of the paper and support the move to strengthen the "twin pillar strategy" as part of this endeavor. Low-income countries have the responsibility to implement sound policies and nurture an environment conducive to growth while the developed countries should open up their markets while simultaneously increasing aid volumes.
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> In this connection, we congratulate the Managing Director and the President of the World Bank for their bold initiative in Africa demonstrated by their recent joint visit to the continent. We also support the issues raised by African leaders during this visit and are pleased that the critical issues of market opening, enhancing official development assistance (ODA) and aligning it with the PRSP objectives find strong support in the paper.
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> We are, however, not very comfortable with the explicit linkage between all concessional lending and the preparation of PRSPs. We agree that this may be necessary for HIPCs in view of their special circumstances, but we remain unconvinced on the need for blanket application of this process for all lending to all low-income countries. One of our concerns arises from the PRSP preparation process. Of the four elements of this process outlined in the guidelines for the Joint Staff Assessment of the PRSP, we continue to have reservations with the design of the participatory process—especially in countries, which have a democratically elected government in place. This proposal seems to presuppose that no developing country has a poverty reduction strategy of its own and that an entirely new exercise must be undertaken by low-income countries in the short run. Where well documented strategies and programs to address poverty already exist—the need for a separate PRSP may have to be re evaluated. If a country already has involved

various levels of elected governments in the preparation of these strategies, then it may have difficulty in assigning weights to the opinions of non-governmental organizations (NGOs), women's groups, ethnic minorities, private sectors, trade unions, the poor, etc. after consulting each of these interest groups individually. We are thus in agreement with the views of the Ulstein group that the PRSP process should reinforce the representative and political process in the country rather than weaken it. We also note that this potential for undermining government sovereignty has also been highlighted by the NGO Working Group. In our opinion, the views of a democratically elected government, accountable to its citizens, should form the basis of its PRSP and the nature and modalities of the consultation process should be left to the authorities. While the paper does talk about the need for development of consultative processes suitable to a country's institutional structure, and the final ownership vesting with national authorities, we would have liked to see a more precise formulation for the resolution of this issue.

In the case of HIPC Initiative countries, we are strongly supportive of the efforts for cohesiveness in the approach of donors and therefore fully support the call for 'aligning aid fully with country led poverty reduction strategies.' We feel that development assistance has a far greater impact when directed towards public expenditures in general rather than individual projects in particular. Once donors have been consulted in the PRSP preparation process, their support for it should be expressed as budgetary support to the HIPCs rather than aid to individual projects. This approach will ensure that donor assistance is consistent with the priorities outlined in the PRSP and being less intrusive, will promote partnership building. It will also be more conducive to fiscal discipline as well as monitoring. Reporting requirements could also be simplified using this mechanism. We therefore welcome the Bank's efforts to move to the Poverty Reduction Support Credit (PRSC) approach. We also commend the EU and some other donors for moving towards co financing support to the PRSP along with the PRSC.

Having said this, we are equally concerned about the blanket application of this principle to all countries. This may allow for a needless expansion of the IMF's role in the cases of countries which request assistance only from the Bank. This will be especially in the case of those low-income countries, which do not face balance of payments problems, but continue to borrow from the International Development Association (IDA) for its social sector investments, without seeking recourse to the PRGF. As the note points out, IDA support would be channeled through a PRSC in the future. For these countries, the statement on Page 32 of the PRSP paper that "…the Bank staff ascertain whether the Fund has any outstanding concerns about the adequacy of the country's macroeconomic policies" could result in the creeping of fund conditionality into IDA-supported programs, which could be seen as unwarranted, intrusive and burdensome. We would argue that while the PRSC approach can and should be emphasized for HIPCs; the investment-lending window under IDA should not be completely closed. IDA should continue investment lending and non-HIPC Initiative countries, which do not have a balance of payments problem, should at their option, be able to continue to obtain this type of support without going through the PRSP/PRSC route. We feel that a flexible approach should be adopted in this regard.

We support the suggestion for costing the PRSP proposals, as there is a need to underpin the strategy with a credible financing plan, which incorporates the projected level of domestic borrowing as well as external flows. Only this can ensure the prioritization of the PRSP initiatives and ensure that the goals set are realistic. We also agree on the need to put into place a sound public expenditure management system, which will track poverty related expenditure. However feel that the absence of such a mechanism should not be made a reason for delay in reaching completion point, if alternate bridging mechanisms for poverty tracking are available.

Mr. Törnqvist and Mr. Elkjaer submitted the following statement:

The two status reports give a comprehensive overview of developments in the PRSP and HIPC Initiative processes over the past 6 months, which is useful. It would have been helpful, however, if these documents, together with the joint note of the President of the World Bank and the Managing Director, had provided specific issues for discussion that could guide the Ministers' deliberations.

We agree with the main conclusions of the papers, namely that in the end, the final responsibility for setting the priorities for poverty reduction lies with the countries themselves, in the same way as the efforts on the implementation of strategies at the country level is the key to success.

Now turning to the specific comments.

PRSP

Despite some problems and shortcomings, the PRSP process has generally been a very positive experience. The production and evaluation of PRSPs have been, and should continue to be, a learning process for both donors and HIPC countries. The process should be flexible to allow for country differences and later improvements of the content of the PRSPs. Country ownership of the PRSP should be enhanced. It must go beyond government ownership and has to be based on genuinely participatory processes. An accelerated progress is clearly needed in this regard. In particular, the poorest and most vulnerable segments of the population have not been sufficiently consulted so far. Of course, this is partly due to the still early stage of the PRSP process in which most countries have only prepared interim PRSPs (I-PRSPs).

The progress report concludes that there are three key trends for the near future: transition from I-PRSP to full PRSP, increased donor alignment, and moving from preparation to implementation on the ground. These are all important areas, and the World Bank will likely have a larger role than the Fund. We would like to emphasize the importance of the Fund in the second trend—increased donor alignment—perhaps not so much directly as indirectly. The Fund should emphasize macroeconomic policies and areas such as public resource management and accounting systems that are of relevance for the macroeconomic framework and the implementation of the PRSP. This in turn will provide assurances to donors that the overall framework is in place and working satisfactorily. In this respect, the PRSC is very welcome as it will help the Fund—and the Bank—to focus more clearly on their areas of expertise while, at the same time, respect the complementarities between the macroeconomic and the social and structural issues. We can therefore support that disbursement under the PRGF and PRSC will be made only if the country's poverty reduction strategy as a whole is broadly on track. Also, we agree that, while the PRGF would not normally extend conditionality into arrears outside the Fund's domain of expertise and responsibility, in countries with PRGF arrangements but yet without a parallel PRSC, the PRGF may, in the meantime, take a broader scope.

Consequently, we agree with the statement in paragraph 44 that "Disbursements under the PRGF and PRSC would be made only if the country's poverty reduction strategy as a whole is broadly on track. The Bank would normally regard the presence of an on-track PRGF as adequate evidence that the macroeconomic framework is appropriate, and the Fund would normally regard the presence of an on-track PRSC as adequate evidence that the social and structural program is appropriate." But we also have a question on the meaning of "on-track" in this context. The Fund already has a mechanism in the form of PRGF reviews that might be used for this purpose. However, currently it is not clear if there will be a parallel mechanism for the Bank Board to keep track of and discuss PRSP implementation. We would appreciate comments on how this issue will be handled.

On the weaknesses in the I-PRSPs, and the key areas where the Board has recommended that additional work should be carried out in the context of the full PRSP, we feel that several aspects considered important by Board members have not been included in the report (paragraph 9). Our chair, together with many other chairs, has consistently pointed to the need to strengthen public expenditure management. Public expenditure management systems need to be appropriately reformed and improved, so that poverty related expenditures are sufficiently costed in the context of a well-functioning medium-term expenditure framework. So far, not many countries have made much progress in this respect. Moreover, many of the I-PRSPs have lacked concrete plans to diversify the economy. In this context, we can support efforts by the Bank and the Fund to increase the assistance in supporting tracking of poverty-reducing spending. The same applies to supporting social impact analysis. The latter field is not within the Fund's expertise, and therefore, the Fund's contribution will be less direct.

Finally, the planned comparative analyses of the full PRSPs for the fall of 2001 are welcome. Of course these analyses must take into account that PRSPs have to be tailored to country-specific needs and circumstances. The evaluations by other donors are also important.

HIPC

This paper provides a good overview of recent progress in implementing the enhanced HIPC Initiative. We are encouraged by the assessment of progress achieved so far for the 22 countries that have reached the decision point, particularly by the projected increases in the social expenditures of the 22 countries from $4.3 billion in 1999 to an annual average of $6 billion in the period 2001–2002. However, it should be pointed out that these projections are based on assumptions about growth rate, concessional financing, etc., where there is a clear downside risk. The realism of the various assumptions has been described in detail in the paper The Challenge of Maintaining Long-Term Debt Sustainability.

We would have liked to see a discussion on the completion point triggers. This has been, and will continue to be, one of the most central aspects of the Board's consideration of HIPC papers. While we would not expect the paper to go into detail in this difficult area, it should include some reference to earlier discussions, which have shown that there is a need for reflecting more carefully on what would constitute meaningful completion point triggers with a view not to overload HIPCs with conditions. This would also be in line with the Fund's ongoing discussion on streamlining conditionality.

Until now, the determination of triggers for different countries only partly seems to have emanated from common guidelines. Even though the triggers need to be country-specific, there are certain key aspects that would be relevant to most HIPCs, and it is not always easy to see the rationale for why a particular set of triggers has been chosen. For instance, overall important aspects such as governance, public expenditure management, gender and HIV/AIDS have been the basis for triggers for some HIPCs, but not for others. Moreover, the variations in this regard do not always seem to follow the relative importance of these issues in the countries concerned. In this context, it should be kept in mind that the overriding goal of the HIPC Initiative is still a sustainable exit from the debt trap. Therefore, when assessing countries' progress towards completion point, we should be looking for credible adjustment and commitment, success in terms of quality instead of just numbers, fully in line with the ongoing revision and streamlining of conditionality in the Fund.

We fully agree that the effectiveness of poverty-related expenditures should be increased and closely followed. It should be emphasized that overall public expenditure management must be improved. As money is fungible, separate and parallel structures for HIPC Initiative resources should be avoided. But, the best should not be the enemy of the good.

The proposal to streamline preliminary HIPC documents arose from the desire to reduce duplication. But, the often very short interval between preliminary and decision point discussions last fall rather increased duplication, since the Board basically discussed the same issues twice over a short period of time. Having two discussions on the same country within a matter of weeks, as was the case last fall, was not very useful. Thus, while the streamlining exercise overall has been a positive experience, an appropriate interval between the preliminary and the decision point discussions should be ensured in the future.

It will be more difficult for some of the remaining countries to qualify for debt relief than in the cases dealt with so far. Many of these countries have been affected by conflict, and reasonable flexibility in these cases should be exercised.

To conclude, we agree with the overall notion that much of the responsibility of the success of fighting poverty and strengthening growth rests on the countries themselves. On the other hand, outward-orientated policies, which are the cornerstone of successful growth strategy, will fail if they are not met by market-opening measures from the industrial countries' side.

Mr. Beauregard submitted the following statement:

We would like to start by commending both the Managing Director of this Institution and the President of the World Bank for their leadership and work done during the past six months to achieve what should be considered as one of the top priorities of these two institutions. The inception process of the poorer countries to what has been called the era of globalization will be possible only if these countries find their way out of the economic stagnation that have affected their population for many years now.

Much of the responsibility to progress in the right direction lies in each country's authorities. As has been the case not only with these poverty reduction strategy initiatives, but also in any other assistance that the Fund and the Bank provide, country ownership is a key element of the strategy. Thus, a serious analysis of the main causes of poverty in each country, seconded by broad participation in the design of strategies to fight poverty, plus a correct application of the resources assigned to them, should in principle result in considerable reductions in poverty levels. This outcome, however, will take years to materialize. As the report states, “The program will stand or fall on the basis of sustained poverty reduction and growth efforts at the country level and their measurable outcomes, which are likely to emerge only over a period of years.” In that regard, we agree with the need to work on social impact analysis. As stated in the report, the success of the program depends on its ability to reduce poverty. Adequate tools to measure such outcomes are therefore important to evaluate the program itself and the adequate implementation of the poverty reduction strategies.

For those countries that are now in the transition period towards the implementation of their poverty reduction strategies, technical assistance from the Fund and the Bank would be important to help them apply the poverty reduction strategies but also to enhance capacity building. On the other hand, for those already receiving financial assistance, an adequate public expenditure management system would be key to secure the use of the resources in a way consistent with their poverty reduction strategies. In this regard, we would like to underline the importance of improving and/or developing adequate public expenditure tracking systems, a task where the Fund and the Bank technical assistance would be very important.

We fully support the decision to streamline conditionality. This effort would be important to help authorities concentrate their efforts on those subjects that are critical to the success of the program. We also share the view that a prerequisite to build a sound platform for a sustained economic development is to deal with those issues that caused the debt problem. Again, country authorities’ commitments to deal with governance issues are crucial. On the other hand, the international community assistance through concessional financing and, most importantly, through the lifting of trade barriers would give these countries a much promising economic prospect.

Finally, we agree with the approach proposed to support and strengthen the program, and we would like to emphasize the importance of country ownership and capacity building as two very important building blocks of the two-pillar strategy.

Mr. Milleron submitted the following statement:

Let me welcome the discussion of the PRSP and HIPC Initiative progress reports as they clearly spell out the main issues tackled by the Bank and IMF boards over the last months and highlight the tangible achievements made towards enhancing poverty reduction efforts through debt relief. The HIPC Initiative progress report, in particular, provides detailed information on creditors’ contributions. I particularly welcome the useful information provided on the HIPC status of implementation, especially in Table 10 (estimated non-Paris Club Official Bilaterals' costs of HIPC Initiative relief by Creditor country), which highlights the scale of remaining efforts to be pursued so as to secure full participation of non-Paris Club creditors in the HIPC Initiative.

I also very much appreciate the emphasis on Africa in the joint memorandum on Fighting Poverty and Strengthening Growth in Low-Income countries. The report on the joint trip of the Managing Director and the President of the World Bank provides an insightful vision of the critical issues faced by the continent and gives an excellent presentation of the "two pillar" approach advocated by the Bretton Woods Institutions. I am particularly glad to note the convergence of views surrounding some of the key areas that need to be addressed if Africa is to move forward: better governance, conflict resolution, capacity building, the importance of investing in people, education, a vigorous attack on HIV/AIDS, enhancing competitiveness by linking African economies to the global economy and improving infrastructure.

But, as is commonly said, if action without vision can be a nightmare, vision without action can be but just a daydream. To translate into reality the vision laid out by the International Development Goals adopted by the Millennium Summit, we need resolute action, both from the international community and from the African countries, as perfectly summarized by the "help for self-help" concept described in the joint note.

In that regard, we can certainly say that PRSPs are off to a good start. Four full PRSPs and 32 Interim PRSPs already prepared by countries are an achievement that must be acknowledged. 20 potential full PRSPs for 2001 also represent an ambitious but feasible goal that this chair wholeheartedly supports.

But the success of PRSPs does not work by quantity and numbers alone. The paper recalls appropriately that the Boards of the Fund and the Bank have stated clearly on several occasions that we should not sacrifice speed for quality in the PRSP process. Now, in looking at the various I-PRSPs that we examined at the end of last year, it is clear that strong emphasis has been put on achieving the target of bringing more than 20 countries to the Decision Point. It is time now to concentrate on this quality issue and to mobilize our technical assistance in order to help member countries improve the quality of PRSPs, especially by allowing sufficient time to ensure broad participation of civil society in the elaboration process. The Executive Directors' group travel to Africa provided the participants on the trip with very insightful comments from representatives of the civil society that were involved in the participatory process: among those, the focus on better prioritization of actions, the need to have ex post assessments of undertaken actions and further decentralization of the dialogue with the authorities must be kept in mind.

I think the great achievement of bringing other multilateral institutions and bilaterals to use the PRSP as the framework for their intervention will also contribute to building up partnerships at the stage of the PRSP elaboration. France is mobilizing its technical assistance to support countries in their efforts to improve the quality of their PRSPs, especially in critical sectors like education and health.

I support the assistance that our institutions can provide to national authorities in order to further integrate social impact analysis into the PRSP process. I also agree with the priority spelled out in the joint note concerning a better tracking of poverty-reducing public spending in the PRSP approach. Castles cannot be built on sand: no tangible and long-lasting progress can be registered in HIPC Initiative countries if the basic requirements for national public expenditure management systems are not rapidly met.

The pragmatic "learning by doing" methodology that we adopted last year now needs to evolve into a more systematic approach. Indeed, the PRSP approach is still in its early stages of development. We can also recognize the need for some flexibility to take into account country differences. However, this should not result in lowering quality standards. We should keep this concern in perspective during the examination of the comparative analysis scheduled to be undertaken in fall of this year.

On the content of the PRSP, the paper clearly highlights the actual shortfalls of PRSPs. For many HIPC-PRSP countries, HIV/AIDS is an area where fast track action and activities are urgently needed. I believe that the fight against that devastating pandemic should be included in PRSPs of countries with high prevalence rates in the form of a clear strategy for dealing with the spread of the disease through prevention measures. The issue of access to care should also be addressed. Too many PRSPs lack a clear framework on this aspect and we believe that part of the resources freed by the HIPC Initiative should be devoted to fighting this pandemic.

On the refinement of lending instruments and the streamlining of conditionalities, let me emphasize that the transition period during which the PRSCs will gradually phase in will be a critical one, to the extent that structural issues outside the Fund's primary area of expertise will still need to be addressed. To avoid a no-man's-land of structural measures, such issues will have to be properly covered by the PRGF-supported programs, especially those which have such a direct macroeconomic impact that the PRGF-supported program would be derailed if they were not implemented.

Mr. Barro Chambrier made the following statement:

I would like to thank the Managing Director and the President of the World Bank, for providing the Board with a progress report on the PRSP process and the HIPC Initiative. I find the joint memorandum's overall tone balanced. It is factual and gives a good report on progress achieved thus far, the remaining challenges, and also a gentle reminder of the fact that the preparation of Poverty Reduction Strategy Papers (PRSP) is a learning process, for countries and for their development partners.

As stressed in the joint memorandum, progress achieved to date, as well as the remaining agenda, point to the fact that fighting poverty and enhancing high quality growth rests on "two pillars." On the one hand efforts by low-income countries to design and implement the appropriate policies and reform measures, and on the other hand the technical and financial assistance, as well as access to markets that these countries can expect from the donor community. More than ever, this approach needs to be strengthened for the fight against poverty to be successful.

On the PRSP process, I think that the commitment shown by countries for the preparation of participatory PRSPs is an encouraging sign and is well emphasized in the paper. Equally encouraging are indications of willingness by countries' development partners to help make the PRSP an important tool for an efficient and coordinated cooperation. This willingness can only help the process gain momentum. Hence, I look forward to the expected 20 full PRSPs for 2001. However, like Mr. Milleron, I think that in preparing these PRSPs, a greater emphasis should be on quality, rather than speed and that; countries should receive the technical assistance needed to achieve this goal. I therefore command the French authorities, which as indicated by Mr. Milleron, are mobilizing technical assistance to help countries in preparing high quality PRSPs, particularly in the priority areas of education and health. I am hopeful that, as the process moves along, more contributions will be provided to the countries.

Looking ahead, I agree with the challenges presented in the paper for the PRSP process and for the HIPC Initiative. However, I think that the Fund and the Bank face another challenge, under the heading of "technical assistance and capacity building." It is an important challenge because, as clearly indicated in the note, countries' efforts are constrained by limited administrative capacities, as regards expenditure tracking, the social impact analysis, debt management, and more generally, program implementation; not to mention the post-conflict cases on which the paper has focused. Technical assistance and capacity building are needed in many areas, some of which are outside the Fund's core mandate and require financing from other donors. But even those in the Fund's areas of responsibility face financing constraints for which additional resources are required. I therefore think that this point can be given more emphasis in the joint memorandum.

On refining lending instruments and streamlining conditionality, the paper presents on page 6, the Poverty Reduction Support Credit (PRSC), an IDA lending instrument, as being “sufficiently flexible and broadly based to ensure suitable coverage of social and structural policy areas.” In the same paragraph there is a link between the PRGF and the PRSC and a reference to a “transition period.” I think that our discussion on streamlining conditionality did not go that far regarding the division of labor between the Fund and the World Bank. The Chairman’s concluding remarks after our discussion indicated that “Limiting the Fund’s conditionality to its core areas, while ensuring that measures that are critical to program objectives are carried out, would also require further progress in developing a framework for coordination with the World Bank and other agencies.” This was one of the issues requiring further consideration. Such a framework is important, and I would expect a formal link between the PRGF and the PRSC to be discussed by the Board in the context of a framework for collaboration between the Fund and the Bank. Consequently, I have reservations about the posting of the paper (SM/01/96) on the Fund and Bank websites including the paragraphs formally linking the PRGF and the PRSC. On the paper SM/01/95, reference to the Republic of Congo and to the Central African Republic as “conflict affected” countries on table 1 (page 4) should be removed prior to its publication.

In conclusion, I think that the note has very well described the progress made until now and carefully laid down the challenges ahead. It appropriately draws attention to financing needs and the additional efforts required both from program countries and donors. The issue of debt sustainability under present conditions and access to industrial countries’ markets are critical to the success of the Initiative, and I thank the Managing Director and the President of the World Bank for drawing attention to them.

Mr. Pickford made the following statement:

The staff report provides a useful summary of the progress made to date, with the underlying papers providing more detail. While I note that conflict is a major factor preventing progress on debt relief in a number of remaining cases, I will focus my comments on the HIPC Initiative progress report and the PRSP progress report.

On the HIPC Initiative paper, I think it is important that we continue to apply the same standards to countries that remain to be considered as to those that have already been through the process. That requires us to maintain flexibility in assessing countries’ eligibility for debt relief. A second point is the need to focus on completion point triggers which allow governments to demonstrate their commitment to the poverty reduction process through the implementation of agreed actions. This underlines the importance of having a good PRSP in place that commands broad-based support. In that same context, I think it is necessary to have quality data on the use of debt relief savings. To this effect, the focus should be placed on improving public expenditure management systems. My third point refers to the need for all creditors to deliver relief in a timely manner. Uncertainty over the timing of debt relief flows makes it difficult for countries to manage their public expenditure systems and undermines their efforts toward poverty reduction. Fourth, on debt sustainability, I am somewhat surprised that the staff report we are currently discussing considers the enhanced HIPC Initiative as a robust basis for an exit from reschedulings, taking into account the views given in another recently discussed staff report, which clearly showed that this was not often the case. More work needs to be done in this area.

On the PRSP progress report, the United Kingdom continues to strongly endorse the PRSP process as an essential part of poverty reduction efforts. While performance varies by country, we have seen a marked change in countries' willingness to develop poverty reduction strategies, which represents a welcome switch of ownership from Washington to country-led approaches. In that regard, I welcome the focus on the role of the Fund and the Bank in financing and facilitating the PRSP process, as this continues to require strong support from the international financial institutions (IFIs). I have three points about the staff report. First, while there has recently been some progress in poverty impact assessments, more progress would be required by the Bank and the Fund in identifying countries where progress should be made on poverty impact assessments before the end of this year. As stated in the report, the United Kingdom is willing to assist in this endeavor if required. While we welcome the indication that impact assessments should be led by the countries themselves, in the short term, it is important that the Fund is clear about the expected impact of reform on poverty. In that regard, transparency will be very important, and I urge the Bank and the Fund to produce publishable and easily understood assessments of poverty impacts.

Second, I reiterate the need for adequate expenditure tracking and public expenditure management. The Bretton Woods institutions and other donors should support the improvement of systems to manage expenditure, as this is a priority area for them. While the Bank has a clear role to play in this area, given its existing processes and tools, the Fund should also strengthen surveillance of the quality of public expenditure management systems. PRGF reviews may be an appropriate forum for this kind of surveillance. It is also important to build on the simple scoring systems that were used as part of the HIPC tracking, in order to score the quality of systems. Developing that system could provide powerful incentives for these countries.

Third, the report usefully signals the complementarity and parallel nature of the PRGF and the PRSC. It is essential that the two instruments should be considered jointly. One reason for this is that it facilitates the agenda on streamlining conditionality. Another reason is that coordination between the two institutions provides guarantee that the two instruments cover all the relevant areas without overlaps. While the PRSP plays the crucial role of providing the overarching framework, the PRGF is the main tool to monitor the implementation of the measures envisaged in the PRSP. In this regard, I welcome the development of the Joint Staff Assessment (JSA) guidelines, and I would like the staff to comment on the timetable of the process to agree these guidelines, and the role that the Board will have in that process.

To conclude, I would like to stress three or four points for priority. First, it would be important to link the macroeconomic framework to the growth and poverty reduction paths. More work needs to be done on understanding the relationship between the two and in assessing the possibility of creating more policy room for the macroeconomic framework, especially in post stabilization countries. Second, environmental and sustainability issues should be carefully considered. Third, the staffs of the two institutions need to pay more attention to political economy issues related to governance, including the elements included in the JSA. The staff report presents considerable quality work already performed by the staff in this area. However, further work needs to be carried out in some key areas, such as post conflict assistance, long-term debt sustainability, arrears clearance, and, most fundamentally, on the interaction and coordination between the Fund's PRGF and the Bank's PRSC, always in support of the country's own PRSP.

Mr. Faini made the following statement:

I join Mr. Barro Chambrier in congratulating the staff for a set of comprehensive papers which, together with the note of the Managing Director and the President, provide an excellent basis for an informed discussion by the IMFC. The documents rightly emphasize what has so far been achieved, not only in terms of the number of countries reaching a decision point—22 so far, with 4 others likely to reach it shortly—but generally, in terms of the creation of the right conditions for a permanent exit from the rescheduling process. Incidentally, I found it somewhat difficult to separate the various issues of debt sustainability, post-conflict countries, PRSP and PRGF, in the two discussions. The paper rightly underscores the achievement of smaller debt-to-service ratios in HIPC and non-HIPC countries after the full impact of debt relief. HIPC countries will even have a significantly lower debt-to-service ratio than non-HIPC countries, although there is no reason to celebrate this, as I am convinced that this ratio is a fairly misleading indicator, especially in terms of long-run sustainability, and perhaps even for short-run sustainability.

Regarding the question on the adequate actions to make further progress, we believe that three areas will play a key role. These are the poverty reduction strategy, implementation, and transparency. On the PRSP, the emphasis on outcomes, which is a key feature of the process, means that a clear understanding of the nature and the determinants of poverty is crucial to the identification of final and intermediate indicators of poverty that will guide the formulation of a well-designed, effectively implemented, and carefully monitored poverty strategy. In this regard, I would welcome the staff's views on the implications of the somewhat hurried process for several countries to reach the decision point in the last part of 2000 for the quality of our understanding of the nature of poverty in these countries. We feel that the selection of final and intermediate poverty indicators is still tentative, and we were heartened by the fact that this concern is shared by a number of non-governmental institutions which have been writing to the Fund and the Bank. Looking forward, we believe that it is urgent to fill this gap, and we would be grateful to the staff if they could provide a clear and updated description of the current status of the poverty assessment and the progress in this area.

On the implementation of the strategies, I share Mr. Pickford's puzzlement at the lack of references in the staff report to completion point triggers, which is a key component in the HIPC Initiative process, given the emphasis on outcomes and the fact that they have been tailored to country-specific conditions. The fact that those measures will trigger the assistance once they have been implemented means that the focus has been on the timing of completion points, when the rationale behind the floating completion point is that policy action, rather than timing, is what matters.

On transparency, we believe, like other speakers, that effective tracking of poverty reducing expenditures is essential. The HIPC countries should make, and are already making, significant efforts to assure the general public that debt resources are being well spent. We were somewhat concerned to see from Table 5 in the staff report that social spending as a percentage of government revenue is projected to increase by 4.5 percent, below the 5 percent threshold, whereas debt relief as a percentage of government revenue will be equal to 12 to 15 percent of government revenues. While we understand that there may be problems in the comparability of data, the gap between those two figures provides cause for alarm, stressing the need for careful tracking of poverty spending if we want to make sure that HIPC Initiative relief is being used for social spending. In this regard, the staff's suggestion of using "virtual" poverty funds in conjunction with the monitoring of changes in public spending should be implemented as a matter of urgency.

Transparency should apply not only to HIPC governments' activities, but also to their relations with donor and development partners. As we have said in the past, we expect the PRSP to play an important role in increasing coordination between donors and debtor countries, allowing for more

> comprehensive disclosure of assistance to be provided by creditor countries. We would like to hear the staff's views on the extent to which the PRSP can play such a role in increasing transparency. In this context, we also regret the Board's failure to return to the issue, which was raised earlier in the year, of establishing a clear set of rules for reporting in the context of the HIPC Initiative. It is unfortunate that we have not been able to produce such a set of rules.
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> Finally, I share the concern expressed by Mr. Milleron, and echoed by Mr. Barro Chambrier, on the delicate transition period during which the Poverty Reduction Support Credit of the Bank will be phased in, as it is essential that the structural reforms outside the main core competency areas of the Fund will be addressed by the Bank. I share Mr. Barro Chambrier's concerns on the undesirability of substituting structural conditionality creep with a structural policy gap. I would also like to emphasize, like Mr. Pickford, the link between macroeconomic policy and poverty reduction, which will be at the heart of our future activities. Perhaps the panelists in the conference to be held shortly on this matter will provide us with useful insights into this difficult area.

The Acting Chairman (Mr. Fischer) asked Mr. Faini how he would avoid the replacement of conditionality creep with structural policy gaps.

Mr. Faini considered there was a danger that going too far in the process of streamlining could create structural policy gaps. This meant that the Fund should stay engaged until full coordination with the Bank would be in place. Perhaps the staff could shed more light on this issue.

Mr. Pickford thought the best option was likely to be the Joint Implementation Committee.

Mr. Callaghan made the following statement:

> The joint report by the Managing Director and the President provides a very good overview of the efforts of the Fund and Bank in fighting poverty. We strongly support the characterization of a two-pronged approach to poverty reduction, namely, help for self-help, where international support will need to be combined with the efforts of the HIPCs themselves to improve their own economic and social policies.
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> The joint report refers to an important element which we think we need to address, namely, this question of tempering expectations. This is raised in the report in the context of tempering expectations with respect to the quality of PRSPs, but I think this can be applied more generally. Much has been done with respect to the IFIs' role in fighting poverty, but there is continuing pressure to do more, to deliver faster results. The papers quite

rightly point out that we are all on a learning curve, and most importantly, our ultimate objective, which is obtaining beneficial outcomes in the lives of poor people, will only be achieved over a period of years. Nevertheless, there will be growing impatience and there will be growing calls to enhance our efforts towards poverty alleviation. Against these pressures we would suggest that a theme that needs to be highlighted is that there is an integrated process in our efforts to fight poverty. Moreover, there is a comprehensive program which is designed to maximize the chances of achieving a meaningful and lasting reduction in poverty.

Importantly, the process is directed at attacking the causes of poverty. We think it would be timely to emphasize the comprehensive nature of the poverty-fighting program so as to dispel misconceptions that arise from unrealistic expectations, expectations which seem to think that there is a quick means to addressing poverty, such as further debt cancellation or additional concessional financing and aid flows or even this issue of greater trade liberalization. These all have a crucial role to play, but if we are to achieve lasting solutions, they must be all complementary and they must be parts of a comprehensive and integrated program which has as its core the adoption of sound economic policies.

This is where we see the great strength of the PRSP process linked to the HIPC Initiative, in that it encompasses a comprehensive program that is required and a program that is owned by the countries concerned. I do not think this can be emphasized too much.

In terms of some specific comments, on the enhanced HIPC Initiative, the achievement of bringing 22 countries to their decision point in 2000, which represents more than half of the number expected to receive debt relief under the framework, is a very notable achievement, and it is one that exceeds the original target of 20 countries envisaged at the time of the annual meetings in Prague.

There are considerable challenges in the implementation of the initiative this year, namely, to move as swiftly as practicable to bring new countries to the decision points and to ensure that countries that reach their decision points remain on track and reach their completion points. On the first challenge the staff note that moving forward with decision-making cases which prove to be more difficult as most countries which have yet to qualify for HIPC Initiative relief are engaged in or have just come out of an armed conflict situation. We are still to have the Board discussion on this topic, but for now I would note that while we consider it important that the Bank and Fund actively engage countries as they emerge from conflict, we are wary of providing unconditional HIPC Initiative debt relief. It would be inappropriate to provide HIPC Initiative relief on softer terms and with less conditionality than that provided to countries with better track records. We think it is particularly important to safeguard the basic principle that resources freed up by debt relief are to be used for poverty reduction. Related to this point I would fully support the comment by Mr. Pickford about the importance of applying the same standards to the remaining HIPC Initiative cases as we have applied to those which have already considered.

On ensuring that countries that have reached their decision points remain on track and reach their completion points, we see the need to see that countries that reach their completion points remain on track beyond those completion points and we think this is a point worth emphasizing. To this end debt sustainability would depend on the successful implementation of a comprehensive set of policies that determine the likely future trend of economic growth and poverty reduction and assuring access to adequate concessional flows from the international community and on sound debt management. These are all the factors that have been identified in the paper on debt sustainability, but again we think it is important to emphasize that what is required is a comprehensive and integrated approach. The substantial progress in securing the necessary funding by creditors to ensure their participation in the initiative is welcome, however we should underscore the need to gain more ground in ensuring the full participation of non-Paris Club. On the poverty reduction papers, as noted previously, we believe that the full PRSP goes to the heart of developing a coordinated approach to poverty reduction, and we recognize that the PRSP approach is in an early stage and that the process will evolve progressively over time and with experience. However, we are concerned about the trade-off between quality of I-PRSPs in the speed of their preparation. The staff papers do not provide much by way of the reasons for the variation in quality. In particular, we are concerned that the countries' capacity constraints may be affecting the participation process, and in this regard, as Mr. Barro Chambrier and Mr. Milleron have already noted, greater resources should be concentrated on capacity building to assist countries in designing and implementing their PRSPs.

Finally, in terms of the implementation of PRSPs, the effectiveness of implementation can only be gauged with the use of sound performance indicators. Considering the constraints faced by low-income countries in generating data, particularly on social indicators, the Bank and Fund will need to assist countries in strengthening their data collection and measurement capacity.

Mr. Usman made the following statement:

The comprehensive staff report has appropriately synthesized the key issues and activities that the Fund's and the Bank's boards have recently been considering. We commend the staff for including a summary of the joint visit of the Managing Director and the President, as this has shown the Fund's and the Bank's commitment to fight widespread poverty and promote economic growth. Overall, we have no difficulty in endorsing the report.

The report on the joint visit was a fair reflection of what transpired between the heads of the two institutions and the heads of governments. Leaders reiterated their determination to deal with conflict and to strengthen their governments, amongst other priorities, even if there may have been some differences in emphasis. However, I would like to note that the report attributes the emphasis on debt cancellation only to some of the leaders, while in fact there was a general acknowledgment that some of the poorer countries, including in particular the post-conflict countries, could achieve external viability and accelerate growth only through further debt relief than currently proposed under the HIPC Initiative.

On the PRSP approach, while the report provides a very good update on the progress made in preparing the PRSPs, it would be useful to draw some lessons from the problems encountered so far by the authorities, the Bank, and the Fund in their experiences with the preparation of PRSPs. In particular, it would be useful to have more information on the problems of coordination either between the two institutions, or with the authorities, as well as with other development partners, as this information could be useful in shaping the future involvement of all interested parties. In the light of such problems, we think that the Fund and the Bank should refine and improve the processes in terms of content, depth, and quality of the PRSPs.

The authorities have an important role to play to make the PRSP process successful through intensified consultation with civil society to promote ownership and to develop specifically tailored programs for poverty reduction. In this connection, we cannot overemphasize the need for technical assistance in support of PRSPs to meet the enormous challenges in the period ahead. In particular, low-income countries will need the assistance of the Fund and the Bank in designing new policies and expenditure options which need to be focused on poverty reduction outcomes. We anticipate that actual implementation of the policy strategies will be critical in the next phase to ensure that improved economic conditions can be achieved. In this regard, increased agricultural productivity will be crucial, as the majority of low income earners are primarily engaged in this sector.

The report is right in drawing to the attention of development partners the need to harmonize their operations and procedures in program implementation, given the fact that the PRSP is increasingly becoming a key document for the coordination of governmental development programs and for the mobilization of external assistance. While the report places particular emphasis on tracking poverty reduction expenditures, the need for assistance to build domestic capacity for public expenditure management and the introduction of an appropriate medium-term expenditure framework should also be emphasized, as the Board has recently underlined. The analysis of the social impact of adjustment programs on the poor should also be an important component of the PRSP process, as this would, among other things, provide useful insights into the design of social safety nets.

On the enhanced HIPC Initiative, the report is forthright on the progress made with the Initiative, emphasizing the need for prompt action on interim relief by all creditors. We are looking forward to the consideration of the possible options to move forward with post-conflict HIPCs that deserve debt relief. The emphasis should be on early and deeper debt relief to allow the early reconstruction and rehabilitation of infrastructures, and the early provision of basic social services. Mr. Kelkar's statement has drawn our attention to the potential for cross-conditionality if the Bank's staff were to ascertain whether or not the Fund has outstanding concerns about IDA-supported programs or vice versa. The problem was fully addressed in our discussion on this subject last month. This may be another instance where we could have undesirable creeping of Fund conditionality in Bank-supported programs or vice versa. As regards debt sustainability, the report is right in focusing on the underlying causes of the debt problem which are hindering the achievement of long-term sustainability. We hope that the Board will reexamine the underlying initial assumptions when considering this matter.

In conclusion, we like the overall optimistic tone of the report, although we should also be wary of being excessively complacent. In this respect, the report acknowledges that the challenges are enormous. The responsibility for reducing poverty and promoting growth in Africa lies squarely on the leaders of Africa with whom the heads of the two institutions have initiated a useful dialogue, which should be reinforced. The meetings undoubtedly provide a foundation on which further progress will be built, and we endorse the progress in the report.

Mr. Maino made the following statement:

The comprehensive progress reports on the enhanced HIPC Initiative and on the PRSP process provide a helpful overview of the progress made. The draft note from the Bank's President and the Fund's Managing Director underscores the need to strengthen the two-pillar approach involving the opening of global markets for trade and technology, and also the countries' own efforts in building institutions, introducing rapid structural reform, and sounder economic policies to achieve poverty reduction. Within this more comprehensive framework, we welcome the move by the Bank and the Fund toward streamlining conditionality on a case-by-case basis to help ease debt burdens, and to facilitate the implementation of the country-owned development strategy.

In general, we subscribe to the main findings and recommendations in the three documents. We would like to acknowledge the staff's efforts in advancing 22 countries to the decision point by the end of 2000. The agreement on the desirability of faster, broader, and deeper debt relief is reflected in the widespread participation of multilateral and bilateral creditors. In this regard, the information on non-Paris Club Official Bilaterals' Costs of HIPC Initiative Relief—provided in Tables 10 and 11—could understate the true extent of creditors' contribution to substantial debt reduction agreements with HIPC countries which predated the start of the HIPC Initiative.

Regarding the estimate of social expenditure presented in Table 5 that Mr. Faini also referred to, the staff note that the coverage varies across countries and that social expenditure is assumed to remain constant as a percentage of GDP in 2002 for six of them. Given the importance of this component of expenditures, staff may wish to comment on the main risks underlying these projections.

Regarding the need for development assistance to achieve the PRSP objectives, we welcome the Bank's efforts to move to the PRSP approach to channel support in the future, and the fact that the European Union and some other donors are considering co-financing support to the PRSPs along with the PRSCs. At the same time, we concur with Mr. Kelkar in viewing development assistance to support HIPC Initiative budgetary reform—consistent with the priorities outlined in the PRSP—as likely to be more effective, less intrusive, and easier to monitor.

As the President of the World Bank group recently stated, debt relief without market access runs the risk of crippling HIPC Initiative countries' efforts to grow, and create the resources needed to attack poverty and to improve social welfare and equity. The very low HIPCs' exports-to-GDP ratios and the high shares of agriculture in total output underscore the importance of liberalizing market access for HIPCs as an essential complement to debt relief.

Discussions over the process of implementing the PRSPs and their role in HIPC Initiative debt relief underscore the significance of ownership, basing the PRSP on the countries' own priorities and circumstances. In this regard, the PRSP consultation processes should reinforce the representative nature of political initiatives in the country. We thus see merit in further refining the nature and modalities of the PRSP consultation processes for the purposes of the HIPC Initiative in the future, which will require strengthening of country institutions and will avoid an open-ended process.

The real effectiveness of the approach rests on the poverty reduction actually achieved. In this regard, the JSA guidelines for evaluation of PRSPs constitute a helpful addition. The comparative analysis of the full PRSPs, including evaluation by other donors, announced for the fall of 2001, should, however, attempt to reflect countries' specific needs and circumstances in a manner that ensures comparability. Conditionality is essential for the success of the PRSP approach and the case for streamlining is equally incontrovertible. Although the dynamics on this matter are still evolving, the Bank and the Fund should cooperate by advancing consistent conditionality through the Fund's PRGF and the Bank's PRSC. In this regard, the Fund's contribution to poverty reduction in PRGF-supported programs should focus on macroeconomic and fiscal aspects. The transition period during which PRSCs will be gradually phased in will be critical. We favor a rapid transition to ensure that countries are not overburdened by structural conditionality or confronted with inconsistent advice or gaps in policy design and support. The fit between the Fund's PRGF and the Bank's PRSC should prioritize simplification, and serve to limit gray areas in the collaboration between the two institutions.

Finally, like other Directors, we support the suggestion for costing PRSP proposals. In this regard, when discussing the tracking of public spending in HIPC Initiative countries, we emphasize the need for realism in the expectations for spending tracking capacity. Therefore, safeguarding HIPC Initiative resources requires donors and international financial institutions to work jointly in the provision of adequate technical assistance to strengthen the limited institutional capacity of HIPCs to manage budgetary resources effectively. Similarly, the Fund and the World Bank should encourage HIPCs to implement their public expenditure programs and link the processes to an actual estimate of the potential needs for further IMF and World Bank technical assistance missions.

Mr. von Kleist made the following statement:

The draft note from the World Bank's President and the Fund's Managing Director is concise and we generally concur with its arguments. The accompanying staff reports present a wealth of information on the PRSP process and the HIPC Initiative with clarity, which is very welcome. My only regret is the timing of the discussion.

Two important elements in the draft joint note are the assistance to post-conflict countries, as Mr. Pickford has mentioned, and long-term external debt sustainability. While these issues raise important questions, I will not cover them today, as the Board will be discussing these issues shortly in a separate discussion. I will briefly comment on other aspects of the joint note, as Messrs. Törnqvist and Milleron have already touched upon these issues in their statements.

First, the issuance of a joint note demonstrates that the Fund and the Bank are working together and have realized that they cannot succeed in their

> current efforts toward poverty reduction separately. However, I wonder why this opportunity has not also been used to update the agreement between the President and the Managing Director on the responsibilities of the two institutions, given the recent Board discussions on conditionality, and in view of the broader experience that both institutions have gathered since their respective responsibilities were agreed. Perhaps this suggestion can be taken up in future joint notes, taking into account that we shall revisit this topic at regular intervals.
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> Second, I welcome and support the point made by the African leaders that sustainable poverty reduction and growth must start with, and build upon, peace, democracy, and effective institutions. The first two of these must be achieved nationally as a condition sine qua non for the involvement of the international financial community. The Fund can help with technical assistance to increase institutional efficiency. The basic design of institutions will, however, have to be homegrown to make sure that they are compatible with the customs and heritage of the society they will serve. Something that was missing in the leaders' statement was an explicit reference to the need for macroeconomic stability as an indispensable cornerstone for economic development. Third, I welcome the draft joint note's emphasis on tracking poverty reduction expenditures to guarantee that the aim that debt relief is supposed to achieve can actually be met. Fourth, on the call to ease trade restrictions, as already mentioned during the recent discussion on the World Economic Outlook, the European Union has provided free access for all products from LDCs, excluding weapons, through the so-called "Everything-But-Arms" initiative. No other developed country has gone this far. We therefore join the Bank's President and the Fund's Managing Director in urging other industrialized countries to open their markets in a comparable way.

Mr. Barro Chambrier reminded Mr. von Kleist that a head of state should not be expected to talk about the importance of macroeconomic stability, as this was more in line with the responsibilities of the ministers of finance. The heads of state should agree on the set of priorities that the Fund should concentrate upon in order to help the authorities achieve macroeconomic stability.

Mr. von Kleist stressed that, at least in G-7 countries, the heads of state attached considerable importance to macroeconomic stability, and they expressed their views on this matter with regularity in their communiqués. This was clearly the case in Germany, for example.

Mr. Barro Chambrier clarified that he did not consider that macroeconomic stability was not important to the heads of state in Africa. However, the main concern for African leaders was to discuss with the Bank's and the Fund's management the priorities for the activities of these institutions in Africa.

Mr. Rouai made the following statement:

We thank the Managing Director of the IMF, the President of the World Bank, and the staff of the two institutions for the well-articulated reports on a subject pointing toward the very core of the Bank and Fund mandates. It is regrettable that despite courageous efforts by several countries supported by the two institutions and the development community over half a century to promote growth and reduce global poverty, vast numbers of the world population still live in such abject poverty. The thrust of the reports and the twin pillar strategy to fight poverty are, in our view, pointing to the right direction.

The Managing Director and the President are to be congratulated for meeting with African leaders and engaging in this highly fruitful and constructive dialogue on the best way to promote growth and reduce poverty on the continent. We are encouraged by the African leaders' forthrightness and appreciation of the continent's problems and challenges. We are also impressed by their commitment and readiness to make the necessary changes to address poverty and to enable Africa to benefit positively and fully from globalization.

The PRSP and HIPC Initiatives have become important vehicles for enhancing growth prospects in poor countries, reducing poverty, and bringing these countries to their IDG targets within a reasonable time frame. The HIPC Initiative, in particular, is helping to relieve the yoke of debt which threatens to cripple the development efforts of heavily indebted poor countries. Countries benefiting from HIPC Initiative assistance are able to devote more resources to social- and poverty-related spending and to promote growth. It is noteworthy that the poverty alleviation and growth program—elaborated in the PRSP—is prepared almost entirely by these countries based on an extensive consultative process involving government, civil society, NGOS, and development partners. The PRSP has thereby become a symbol of true program ownership and an instrument for articulating collective aspirations of the peoples of the countries involved. It is encouraging to see more countries benefiting from HIPC Initiative assistance and moving from decision point to completion point. It is also significant that a good number of countries will be upgrading their interim PRSPs to full status. We welcome the recognition of the special needs of post-conflict countries—given the peculiar nature of their problems. We also particularly welcome providing special assistance to these countries through early HIPC Initiative decision points, combined with front-loading of earmarked assistance.

We note the cooperative efforts of the Bank and Fund to "make their operations more supportive of countries' poverty-reduction efforts." To that end, initiatives of the two institutions will need reinforcing and refocusing. The decision to streamline conditionality in Bank- and Fund-supported programs is a laudable effort in this direction. We encourage both institutions to cooperate closely to fill any conditionality gap, while avoiding cross conditionality or conflicting policy advice. The new approach is meant to focus conditionality on core policies and actions pertinent to program outcomes. As a result, program flexibility and scope will be enhanced and country ownership deepened. It is of the utmost importance to strengthen the growth content of PRGFs and PRSCs so that the income levels and living standards of broad masses of the populace in program countries can be increased over a reasonably short period of time. Building "a strong human resource base" in poor countries, including through strengthening managerial, technical and professional skills, is also crucial for accelerated growth. This can be facilitated through increasing support for education, training, and health programs. An active promotion of technology transfer to poor countries through appropriate incentives and guarantees to investors will also enhance the productivity of human capital. Furthermore, we wish to add our voice to the call for opening the markets of industrial countries to exports from poor countries and increased access of these countries to world capital markets as a vehicle for stimulating their growth.

To guarantee maximum benefit to recipient countries under the HIPC Initiative, an effective means of ensuring that delivered assistance is applied to the earmarked purposes is required, as well as periodic assessment of its impact. For this purpose, the "virtual poverty fund" approach will be helpful in the interim for tracking poverty-related spending, while more effective public expenditure management systems are being set up. It will also be useful to gradually phase in social impact analyses into PRGFs and to strengthen national capacities to assess program outcomes. Finally, we wish to emphasize the importance of post-HIPC Initiative debt sustainability for sustainable poverty alleviation under the HIPC Initiative. That will require sustained economic growth, a robust and diversified export sector, sound public resource and debt management, and sustained concessional assistance. It is important therefore to give due recognition to these key pre-requisites in PRGFs and PRSCs to ensure durable poverty reduction in program countries.

In conclusion, we wish to echo the call for increased concessional aid from the international community to accelerate the realization of the vision of a substantially reduced burden of poverty and misery in the world.

Mr. Yoshimura made the following statement:

I welcome the draft joint note by the Fund's Managing Director and the Bank's President, which provides a general overview of the PRSP and the HIPC Initiative processes over the past six months. This report is encouraging, not only as a worthy contribution to the ministers' discussions, but also as a sound basis for future discussions on how to develop poverty reduction schemes. It is significant that a considerable number of interim PRSPs and full

PRSPs have been presented, with over 20 countries reaching the decision point under the enhanced HIPC Initiative. The adequate implementation of poverty reduction and growth measures with strong country ownership will likely result in further progress with the Initiative.

I will make several comments for emphasis, mainly on the PRSP. I am encouraged by the noteworthy preparation of 22 interim PRSPs and 4 full PRSPs, which are at the core of countries' poverty reduction and growth strategies. According to the staff paper, 12 additional full PRSPs will be presented to the Board in 2001. I share the staff's view that the PRSP is still in the early stages of a learning process. The staff and the Board must adequately analyze the lessons learned from this process in order to further develop a system of economic assistance. While the presentation of a good number of PRSPs is a positive step, I must stress that the quality of PRSPs should not be sacrificed for speed. Consultation in the rural areas, which is a crucial part of the process that cannot be skipped, is understandably time-consuming.

The staff has pointed out the importance of economic growth, especially on the export side, to maintain future sustainability. A correct strategy is to diversify the economy through a sound macroeconomic framework and structural reform measures that are a necessary condition for the achievement of higher economic growth in the future. The effective use of private resources is also crucial. The authorities must focus on these points when developing their PRSPs. We expect clear analysis from the staff in their JSA. I share the emphasis given by the staff to national public expenditure tracking. I also applaud the staff's completed preliminary assessment of the performance of public expenditure management systems in 25 HIPCs, and the intention to perform a more detailed assessment. The social impact analysis developed by the staff is welcome. However, I would like to stress the importance of clearly prioritizing these actions, as well as the need to enlist cooperation among partners. Accordingly, the definition of poverty reducing public spending must be based on cost effectiveness analysis as a key factor for prioritization of measures.

Finally, I share Mr. Törnqvist's view that the Bank should have a stronger role than the Fund in the transition from interim PRSPs to full PRSPs. In this context, we welcome the introduction of the PRSC by the Bank, as this will greatly help the Fund to focus its expertise in the macroeconomic area. On the HIPC Initiative, I am delighted with the achievement of having 22 countries reach the decision point. I hope to see other countries with strong ownership of their PRSPs reaching the decision point in the near future. As regards those countries that have already reached the decision point, I would like to stress the importance of a high quality full PRSP, based on a sufficient participatory process to formulate a national consensus on the poverty reduction strategies.

Mr. Junguito made the following statement:

We would like to thank staff for the well-written papers related to the status and progress of implementation of the HIPC Initiative and the PRSPs. The enhanced HIPC Initiative framework provides for an explicit link between debt relief and appropriate macroeconomic, structural and social policies through the PRSP. This process is expected to increase ownership of HIPCs' economic adjustment and reform programs. The PRSP approach will evolve progressively over time and the effectiveness of the program will be tested on the basis of persistent poverty reduction efforts at the country level and their measurable outcomes, which are likely to emerge only over a period of several years.

The reduction in the debt stock and servicing obligations on existing debt, which has been brought about by the HIPC Initiative, reduces the likelihood of future debt-servicing problems and provides a robust basis to exit from rescheduling. However, long-term debt sustainability will only be achieved if the countries maintain sound macroeconomic policies, have access to export markets, and have access to adequate concessional financing flows.

Relief under the HIPC Initiative will enable governments to substantially increase spending directed at reducing poverty. It will be critical to have in place public expenditure management systems that allow for the effective accounting and monitoring of overall spending on poverty related programs. Technical assistance from the Bank and the Fund is crucial to strengthening expenditure management systems in order to track poverty reducing spending within governments' budgets.

It is important to improve national public expenditure management systems, so that countries can ensure that domestic resources, external assistance, and HIPC Initiative budgetary savings are actually used for intended poverty related purposes. We welcome the proposals for a Program on Public Expenditure Management and Accountability with the funding of the EU, the Bank, and bilateral donors. We also support the use of "virtual" poverty funds that rely on existing data to help track poverty reducing spending as a useful transitory mechanism.

The Fund and the Bank conditionality under the PRSP approach should be selective and focused on a few key measures that are central to the success of the country's strategy and taking into account the areas of competence and expertise of each institution. On this issue, we share Mr. Kelkar's concern regarding the statement on page 32 of the PRSP paper, which could lead in the creeping of Fund conditionality into IDA-supported programs. On this topic, we support the announced intention expressed in the joint note of the President of the World Bank and the Managing Director of the IMF regarding the need to improve the division of labor between the two institutions, with each concentrating on its primary areas of competence and expertise.

We also support the emphasis given in the draft joint note to the need for additional development assistance in concessional terms, and to open market of developed countries to all of the exports of African and other poor countries. However, we would like to suggest that the request for trade opening should be enlarged as to include all emerging countries. Trade opening by industrial countries should benefit all developing nations. The corresponding amendment of the letter should be made both in pages 3 and 9 of the draft joint note.

Mr. Djojosubroto made the following statement:

We commend the staff for their comprehensive and informative papers, and we welcome the report on Fighting Poverty and Strengthening Growth in Low-Income Countries through the HIPC/PRSP approach. We also welcome the Managing Director's call for the developed countries to open their markets to poor countries and to increase their development assistance to support countries with poverty reduction strategies. In this context, we urge developed countries to meet their target of 0.7 percent of GNP destined to ODA for developing countries. In addition, we join Mr. Törnqvist in emphasizing the importance of opening the markets of developed countries to allow developing countries to increase their exports, as this has proved to be the best method to achieve growth and economic welfare. This is particularly important in view of the increasing and deep chasm between advanced economies and the poorest countries. We strongly support the twin pillars of self-help and renewed cooperation suggested by the Managing Director. There is no doubt that one critical factor for the success of the poverty reduction program is strong country ownership. We reiterate the importance of the provision of adequate technical assistance and of streamlining structural benchmarks and outcome-based conditionality, as this will be consistent with the aim of pursuing a strategy based on the countries' priorities. We feel that the addition of the second pillar of renewed cooperation will contribute to reduce poverty and to enhance global welfare, particularly if it is based on a win-win basis for the donor and the recipient.

Finally, we welcome the strengthening of the role of developing countries in the PRSP approach. However, we join Messrs. Kelkar and Junguito in expressing concern over the apparent tendency toward basing IDA support on the PRSP, and toward the need for Fund approval of Bank's PRSCs, together with the need for Bank approval of the authorities' PRSP, as this would imply the imposition of additional conditionality. This would be an intrusion of conditionality in the case of countries which are not seeking assistance from the Fund, but from the IDA, the Bank or other multilateral organizations. Hence, we join Mr. Kelkar in urging that the PRSP/PRSC link should be confined to countries asking for assistance under the HIPC Initiative or the PRGF.

Mr. Fenton made the following statement:

I would like to join other speakers in welcoming these reports. They make clear both the substantial progress that has been achieved in implementing PRSPs and the HIPC Initiative, for which staff and management deserve to be commended, and the significant challenges that still lie before us.

I shall focus mainly on PRSPs. While the PRSP approach is off to a strong start, this is a good opportunity to begin to review the lessons that have been learned and to set out what we consider to be the key attributes of a successful PRSP.

With respect to the latter, there are three attributes of a PRSP that we think are particularly important. First, a PRSP should be a living document, that is refreshed and improved on a regular cycle. It is going to take many years of strong policies to resolve the problems that low-income countries are facing. It is naïve to think that it is possible to develop a blueprint in a year or two that can then be followed without modifications. Rather it will be necessary to learn, and to adapt the PRSP as the situation in the country evolves. This view has important implications for what is expected of an initial PRSP. We would advocate a balanced approach to the transition from an interim-PRSP to a full PRSP. The process should not be so rushed as to seriously impair the value of the PRSP, nor should it be unduly slow in pursuit of a standard that is not obtainable in a reasonable period of time. In short, we are seeking a high quality initial full PRSP, but, as Mr. Milleron says in his preliminary statement, the "perfect" should not be allowed to become the enemy of the "good." The PRSP can and should be improved in later revisions.

Second, a PRSP should enjoy strong country ownership, arising from following a broad participatory process in its preparation.

And third, a PRSP should set out clear priorities, that are appropriately sequenced, and commensurate with the needs of the population and the country's implementation capacity. While it is for the participants in the PRSP process to decide on these priorities, we would be surprised if they did not include plans to strengthen governance, especially public expenditure management; to address rural development, since in so many countries poverty is greatest in rural areas; to improve gender equality; and, where relevant, to address the HIV/AIDS pandemic. We would also expect these priorities, especially those related to public expenditure management, to be reflected in PRGF arrangements.

We also think that the inclusion of social impact analysis should be a goal, and we agree with Mr. Milleron on the need for ex post assessments of actions undertaken.

With respect to the HIPC Initiative, we think that the report strikes the right balance between the progress that has been achieved and the challenges that remain. We also welcome the attention devoted to helping post-conflict HIPCs and to maintaining long-term debt sustainability. Like Mr. Von Kleist, we would hope that these sections would be updated, as appropriate, to reflect tomorrow's Board discussions of these important topics.

Finally, I would like to associate myself with Mr. Pickford and other Directors' remarks on the lack of discussion on the triggers for the floating completion point.

Mr. Wei made the following statement:

At the outset, let me join previous speakers in expressing our gratitude to the Managing Director of the Fund and the President of the World Bank for their joint note which highlights the remarkable progress made in the framework of poverty reduction and the pro-growth strategy for low-income countries. I am particularly pleased that the strategy has been broadened to embrace two new components—assistance to post-conflict eligible HIPC Initiative countries, and the sustainability of long-term external debt, of course, we will have separate discussions of these two issues—which are of critical importance to all HIPCs in the sense that they will be able to break away from poverty and a heavy debt burden if all the policy measures as proposed in the latter paper are implemented. We should thank the managements of the two institutions and the staffs for their efforts without which the progress on this important initiative could not have been achieved. In general, I agree with the thrust of the report and support the two-pronged strategy to meet the challenges ahead. I would like to make some brief comments on a few areas.

I welcome the significant progress in the preparation of Interim-PRSPs (I-PRSPs). Initial experience with this exercise is quite encouraging. Although preparation of I-PRSPs and their upgrade to full PRSPs is new to everyone, the I-PRSPs are well prepared and sufficient for the Board to approve the 22 countries in reaching decision points. We are confident these countries will be able to complete their full PRSPs in a timely manner so as to facilitate their coming to the completion points. I welcome the introduction of the guidelines for Joint Staff Assessments (JSA) of full PRSPs which should be revised periodically, drawing on experience as we proceed with this matter. We also share the view that flexibility and simplicity should be considered when amending the guidelines for JSA of full PRSPs.

With regard to the participatory process in PRSP preparation, while I agree that the consultation outreach should be as wide as possible, I continue to believe that the authorities should take the lead in this process and have the final say. I also share the concern voiced by Mr. Kelkar in his preliminary statement over the explicit linkage between all concessional lending and the preparation of PRSPs. Repetition should be avoided when the country already has its comprehensive strategy for poverty reduction.

On the issue of social impact analysis, we believe such analysis is important since it is expected that significant improvements could be made in social areas when the PRSG is implemented. In this regard, we agree with the broad division of the responsibilities between the Fund and the Bank as indicated in the draft note. We share the view that while it is desirable to integrate the social impact analysis into the PRGF process as speedily as possible, we must be realistic and flexible with the implementation given the nature of the inherent complexity of this matter and the limited capacity of the countries.

We strongly support the two pillars approach as proposed by the Managing Director and the President in order to achieve the objective of poverty reduction and debt sustainability. In this connection, I agree with other Executive Directors, that sufficient technical assistance is critical for the countries to implement PRSPs through enhancing their institutional and capacity building. More importantly, I join others in emphasizing that the industrial countries must open their markets to all developing countries and make serious efforts to meet the UN objective by contributing 0.7 percent of GDP as ODA. Mr. Junguito made a very valuable proposal on this matter which I fully support.

Mr. Josz made the following statement:

I fully support the “two pillars” strategy presented in the memo to the Development and IMF Committees.

Indeed poor countries need first and foremost to stop wars and drastically improve their economic, financial and social policies in order to strengthen growth and reduce poverty.

And industrial countries need to fully open their markets to the poor countries’ products, as recently decided by EU countries and New Zealand, as well as to increase the volume and the effectiveness of their ODA.

There is, however, a real danger that all the attention and publicity given by the international community to debt relief has led the public opinion to believe that the HIPC Initiative is the answer to all poor countries’ problems and a substitute for ODA. Such a misperception needs to be corrected if we want to succeed to raise additional ODA. The HIPC Initiative represents an effort equivalent to 0.1 percent of the industrial countries' annual GDP, or US$30 billion, spread during 15 years. It is of course an illusion to believe that such an effort will suffice to meet the Development Goals set by the international community for 2015. After all, the total cost of the HIPC Initiative is only a small fraction of the shortfall, each year, between most industrial countries' ODA and the UN target. This shortfall amounted to 0.56 percent of GDP, for all industrial countries collectively.

Belgian academic economists have calculated that it would suffice to increase the industrial countries' ODA by 0.1 percent of GDP each year during the next 15 years, to meet the international development goals in the poorest countries by 2015 and fully extinct their present external debt by then. These economists have also formulated interesting proposals to build on the public opinion support in favor of debt relief in order to raise the additional ODA that is needed to meet the international development goals.

Mr. Kiekens will present the major elements of their proposal tomorrow, when the Board will discuss the challenge of maintaining the external debt of HIPCs sustainable after the completion point.

Ms. Lissakers made the following statement:

Process

The proposed joint report from the Managing Director and the President of the World Bank to the International Monetary and Financial Committee and the Development Committee is mostly an umbrella for a number of policy issues we will be discussing today and tomorrow.

For some of these issues, such as expenditure tracking, there has been Board discussion. In other cases, most notably with the paper on assistance to post-conflict HIPC/PRGF countries, there has been no discussion whatsoever.

The process is unclear. How is the Board's discussion and input to the background papers supposed to affect the joint report, which is what the ministers are likely to read?

We hope that the report will incorporate the main elements of the summing up of the Board discussions on these issues. Also, we hope it will be made clear when an issue is still under discussion in the Executive Board. Will the Board have an opportunity to see the report again before it is issued?

We do not want to engage in particulars of the discussion on post-conflict now, but want to lay down a marker that we have serious reservations about the proposals contained in the background paper. In our strong view, there has been insufficient consideration of these proposals to warrant sending them, at this stage, to the International Monetary and Financial Committee and to the Development Committee.

PRSP

We generally found the paper to be very good. A number of aspects of this background paper was encouraged by, in particular, the emphasis on tracking of expenditures and the treatment of short-term versus longer-term actions. Also, we welcome the update on activities regarding social impact assessments.

We have a number of concerns, however, and will focus specific comments on those.

Division of Labor/Conditionality

We are concerned about the treatment of PRGF conditionality in paragraphs 43 to 46. PRGF conditionality is a current topic of discussion by the Board, and its conclusions should not be prejudged in this report. Specifically:

We are very concerned by the treatment of streamlining conditionality. As we have noted in the conditionality discussion, the reduction of conditions should not be an end in and of itself, and this holds for both institutions. This is the impression we take from the paper and from Table 2.

At a minimum, the paper should reflect the fact that the Fund Board is engaged in a broader exercise on streamlining conditionality, including for PRGF countries. While the interim guidelines have already resulted in streamlining for PRGF countries, it should be explicitly noted that this will not constrain the Board from coming to a more nuanced conclusions on this topic.

The word “parsimonious” in paragraph 43 (which means stinginess) should be replaced with “more focused.”

This is further complicated by the division of labor between the Fund and Bank, as well as among the Bank-supported programs and projects. The paper’s efforts to lay out how this division will work are too specific given the current state of play in developing the PRSC instrument.

The paper not only gives the overly simplistic impression that there should be fewer conditions in all cases, but those that remain will be less binding. Especially troubling is the reference in paragraph 46: “…a shift away from conditionalities which are not central to the Fund’s mandate, particularly in the area of public enterprise reform. Within the core areas, the overall number of conditions has not declined, but there has been a shift from use of performance criteria to benchmarks, which are less binding." This section needs to be redrafted to emphasize that a tighter focus on higher priority conditions means that implementing and enforcing those conditions is more important.

There seems to be confusion about what core and noncore areas are versus Fund and Bank. The text near the end of paragraph 43, footnote 4 of Table 2 on page 18, and footnote 4 of the JSA guidelines seem inconsistent.

Public Expenditure Management/tracking

JSA guidelines are not clear about short-term and longer-term objectives in strengthening public expenditure management (PEM). We would like to see in the guidelines explicit attention to the need for systematic and transparent reporting on the level of expected HIPC Initiative savings, plans of the intended use of these resources, and the establishment at the decision point of systems, whether rudimentary bridging mechanisms or something more sophisticated, to track these commitments.

We were disappointed by the timeline for country specific action plans to address tracking issues laid out in paragraph 34. There was Board consensus for moving more quickly. This is an issue we have consistently raised over the past year and one that affects the use of our contribution to the HIPC Trust Fund.

Other

The United States submitted a number of drafting suggestions in conjunction with the Bank discussion on this paper, but I wish to underscore two of these here:

In paragraph 6 of the PRSP paper and page 2 of the joint report, there is wording about "tempering of expectations" for PRSPs. Given the critical role these strategies will play in Fund and Bank operations, in our view it would make more sense to emphasize the importance of well-supported efforts to develop comprehensive strategies. We also do not wish to undercut the momentum in countries where the PRSP is well developed.

Given the substantial amount of work that needs to be done to prepare high-quality PRPSs, we would further emphasize in the text the need to focus on quality rather than speed in timing of completion points and remaining decision points.

HIPC

As in the PRSP paper, we would suggest a greater emphasis on quality than speed. In paragraph 3, we would reorder challenges to make “ensuring that countries that have reached decision points remain on track” first, and make “bring new countries to decision points” second.

We strongly discourage any further public statements about the number of countries expected to reach decision points within a particular timeframe. This should be taken out of the joint report and out of paragraph 2 of the HIPC Initiative progress report. Better wording would indicate that Bank and Fund are working to bring forward as many countries as practicable, depending on countries meeting the necessary requirements on economic reforms and poverty reduction.

Some reference should be included in the costing section, perhaps as a footnote, that Ghana is not included in the total costs outlined.

The point in Box 1 about extending the HIPC Initiative beyond the 41 candidates should be removed. Although it might happen that an additional country or countries could qualify, it is unnecessary, premature (ahead of Board consideration) and could raise false expectations.

In the joint report, paragraph 2 on page 1, there is reference to the need to “reduce the current burden of debt” as part of broader strategy. We would strongly recommend a clarification in the language so as to ensure no misunderstanding that this represents advocacy for deeper debt relief beyond the enhanced HIPC Initiative.

Mr. Barro Chambrier agreed with Ms. Lissakers’s remark on the link between macroeconomic policy and fiscal management. In particular, structural reforms in public enterprises were particularly important for macroeconomic stability. The point had been repeatedly made in the past that macroeconomic stability in low-income countries depended on the progress made in structural reform, especially during the transition period. The wording should carefully reflect the Fund’s will to agree with the authorities on the implementation of strong programs that would clearly state the critical measures that they should undertake.

Ms. Lissakers stressed the importance of Mr. Barro Chambrier’s views on this issue, given the frequency with which his constituency had been subject to Fund conditionality. Regarding the interaction between Bank- and Fund-supported programs, a higher degree of formality would be required in the Bank’s assurance to the Fund regarding progress made with poverty reduction efforts or possible adverse social impacts of macroeconomic policies in a PRGF-supported program, as well as in the Fund’s assurances to the Bank on the adequacy of macroeconomic frameworks, as the staff had indicated in paragraphs 44 and 45 of the staff report. The current arrangements for the issuance of such assessments were excessively informal, giving rise to situations where the Bank had assumed that Fund-supported programs were on track when the Fund's program review had actually not been satisfactorily completed. The assessments should be done in writing, and in the case of Fund program assessments, they should be confirmed by the Policy Development and Review (PDR) Department before they could be issued to the Bank's Board. It would be interesting to monitor the evolution of the PRSC to assess the extent to which the interactions between the two institutions would be reinforced.

Mr. Alosaimi made the following statement:

> I join others in welcoming today's discussion of the Managing Director report on fighting poverty and strengthening growth in low-income countries. I broadly agree with its contents, namely the two pillars approach.
>
> As a number of Directors has noted, the PRSP process so far has been encouraging. Here, credit has to be given to the concerned authorities for their efforts in this area. Indeed, fighting poverty and strengthening growth in low income countries will only succeed if there is strong country ownership. Looking forward, I agree with Mr. Milleron and others that we should focus more on quality of PRSPs. Like Mr. Barro Chambrier, Mr. Usman, and others the provision of technical assistance is essential in this regard.
>
> I fully support streamlining of conditionality. Here, I agree that Fund conditionality will not extend into social and structural policies outside its areas of expertise except when these areas are critical to a country's macroeconomic objectives. In this regard, I agree with Mr. Pickford on the importance of strengthening public expenditure management.
>
> Finally, I join others to call upon all countries to meet UN agreed target for ODA.

Mr. Pickford endorsed Ms. Lissakers's point on the importance of viewing the PRGF and PRSC as complementary instruments for medium- and long-term growth and poverty reduction. In the transition period before the desired degree of formality in the interaction between the two institutions could be reached, each institution would have to rely on the other institution's judgment. Regarding the point raised by Mr. Alosaimi as to which institution was in the lead in the public expenditure management area, it would not be desirable to view the Bank as the only institution taking the lead in this area, as the PRGF had proved to be a valuable instrument to monitor progress in improving quality of public expenditure management systems. The quality of the work produced in this area jointly by the Bank and the Fund in the last part of the year 2000 showed that there were roles for both institutions in helping countries to develop public expenditure management systems.

The Deputy Director of the Policy Development and Review Department (Mr. Ahmed) agreed with Mr. Faini's point that the information on debt relief and increases in social expenditure had not been presented in a clear manner in the staff report. The raw data indicated that the debt relief cash flow from the HIPC Initiative had been on the order of $800 million a year in all the countries that had taken part in the initiative, while social expenditures had increased approximately by $1.7 billion a year in the period covered by the analysis. However, the larger increase in social expenditures than in the cash flow from the HIPC Initiative did not clearly come through from looking at the different tables presented in the staff report, as a result of differences in the various denominators used. The staff would revise these tables before the publication of the report to make sure that the information would be clearly presented. Regarding the number of countries that were in the pipeline for the HIPC Initiative, the staff had tried to stress in the report the idea that there would not be a large flow of new countries taking part in the Initiative in the future, given the difficult circumstances that the remaining HIPC countries were currently experiencing. The staff would revise the wording in the staff report to ensure that this message was clearly conveyed. Other points on the HIPC Initiative related to long-term debt sustainability and post-conflict issues would be addressed in upcoming Board discussions. The revision of the staff report would also take into account the outcome of those discussions at the Fund's and the Bank's Boards.

On the priorities for the future outlined by Directors, the Deputy Director affirmed that the staff would take those into account in their work agenda, and they would also be incorporated in the staff report to the extent possible. Some of the areas highlighted by Directors, such as public expenditure management, poverty impact analysis, and linkages between macroeconomic management and poverty reduction, had already been actively discussed, and the staff had started to work on some of those areas. The Research Department, for example, had already organized a workshop with a number of external speakers on the issue of macroeconomic management and poverty reduction. The staff would do further work on the area of capacity-building, which Directors had also identified as a priority.

On the suggestions made by several Directors regarding improvements that could be made to strengthen the JSA, the Deputy Director assured that these would be incorporated into the current draft of the document. The staff was hoping to receive feedback on the draft from the experience of individual countries and from the review of external advisors and other agencies involved in similar activities to allow their views to also be incorporated into the document.

Regarding the PRSPs, the Deputy Director emphasized the point made by Mr. Kelkar that the PRSP should be seen as building on existing national processes, rather than as an independent process to be developed in parallel to those processes. The staff's experience in the past showed that countries with advanced national processes were able to articulate the PRSPs in a more timely manner. Moreover, the aim of the PRSP was to provide a framework for all concessional lending from IDA and the Fund, and not just for debt relief. The second important point on PRSPs was that the references made in the staff report to the number of countries that had completed—or were likely to complete—PRSPs in the current year were intended to stress the broad application of the process. However, the fact that PRSPs had been developed in 20 or 25 countries did not imply that all the PRSPs would be successfully implemented. The stress in the report was on the need to ensure that all those PRSPs would be implemented successfully. The last point to be stressed on PRSPs referred to the importance of taking into account the macroeconomic aspects of the situation in the development of social policies and measures of structural and public expenditure reform. While the Bank would likely take the lead in most of these areas to help countries move forward from the interim PRSPs to the full PRSPs, the specific contributions of the Fund staff with regard to the macroeconomic side of the PRSP process would also be highly valuable.

On conditionality, the Deputy Director stressed that the strategic objective to be achieved was the complete alignment in terms of program design, content, conditionality, instrumentation, and timing of the support provided by the Bank and the Fund, with the aim of reinforcing the countries' priorities as they emerged from the PRSP. This should be done in a complementary manner, avoiding overlaps and gaps between the two institutions. This broad framework had been set out in the previous year's staff reports. The aim at this point was to make that general framework operational, by looking jointly with the Bank staff at specific mechanisms to make it operational in different countries. In this context, the Bank's work in developing the PRSC provided a concrete instrument to complement and mirror the Fund's PRGF, allowing for improved coordination between the two institutions and their programs over time. While the Bank's Board was still reviewing the specifics of the PRSC, it was clear that the staff report should be amended to reflect the Bank's Board discussions on the PRSC, and to make it consistent with the Fund's discussions on conditionality.

On broader issues of coordination with the Bank, the Deputy Director pointed to the existence of a process whereby the staffs from the two institutions shared their perspectives on the macroeconomic framework on the one hand, and structural and social factors on the other, before preparing and presenting programs to their respective Boards. The intention was to move toward a more systematic and structured process, in line with the point raised by Ms. Lissakers regarding the informal nature of the current process. A more formal process of interaction should guarantee the provision of assessments and their review in a timely manner, regardless of the specific instrument used in each case. Notwithstanding the improvements in the interactions between the two institutions, each Board would still ultimately have the responsibility for making the decisions for the programs supported by their institution, with the other institution's assessment as an input into the decision-making process of each institution. The wording in the staff report should be changed if this idea—that increased coordination should not be seen as a binding constraint—had not been clearly presented in the wording currently used in the report. The wording in the report should also clearly reflect the ongoing review of Fund conditionality, which stressed the need to include only essential aspects of the program in the conditionality, rather than all the relevant aspects of the program. The three last paragraphs of the staff report should reflect the Fund's approach to aspects identified as the core areas of the program, in order to make it consistent with the summing up of the Fund's Board discussion on conditionality.

Ms. Lissakers reiterated the importance of formalized procedures to cross-check track records in Bank- and Fund-supported programs. While it was clear that each Board would eventually make the decision on programs supported by their institution, the concern was that the informality in the exchanges of information had led in the past to instances where the

Bank's Board, for example, had approved programs under the confidence that the related Fund-supported program was on track, when the Fund's Board had not actually approved the completion of the Fund-supported program. The same problem applied to communications with the Inter-American Development Bank. The increased importance of such cross-references to reach decisions at the different institutions' Boards made some sort of quality control on the exchanges of information necessary. Such exchanges should be carried out according to standardized guidelines on the handling of inter-institutional enquiries. Regarding conditionality, the main concern was the substance of the staff's view on the Fund's current policy with regard to structural conditionality, rather than the actual wording in the staff report.

The Acting Chairman (Mr. Fischer) advised that the need to develop a formal process of communication to share program assessments between the different institutions should not be included in the staff report that was being considered in the current discussion. Management would take note of the issue, however, which would undoubtedly be addressed in future discussions.

The staff representative from the Policy Development and Review Department (Mr. Bredenkamp), in response to Mr. Faini's question on the effectiveness of PRSPs as a coordination tool between the various donors engaged in the process, informed that PRSPs had probably not played this role to the extent that had been originally envisaged. Nevertheless, there had been a number of positive experiences that the staff could draw on to improve coordination with other institutions. As was often the case, Uganda provided a positive example of considerable coordination between the main donors involved in the country. A number of these had already committed to provide their medium-term support on the basis of the PRSP, and some of them were co-financing the PRSC arranged by the Bank. In the case of Vietnam, the PRSP was also fairly advanced, with a number of donors and NGOs forming a working group with the authorities to debate policy issues raised in the PRSP and to discuss possibilities for co-financing of the PRSP. The European Commission had also committed to use PRSPs as the basis for its lending to low-income countries, and they were also planning to co-finance the Bank's PRSCs. The main area for improvement was the need for harmonization and simplification, an area in which little progress had been made despite the emphasis that recipient countries had placed on this matter. It was hoped that the PRSP process could facilitate further progress in this area in the future.

Regarding Mr. Faini's question on the status of poverty assessments, the staff representative observed that the progress report that had been issued a year earlier on Bank poverty assessments would likely be updated in the near future. However, it was hoped that countries would produce their own poverty assessments, which might or might not draw on the Bank's work. The status of these national progress reports would be reported in the PRSPs that would be issued in the following year.

On Mr. Callaghan's question regarding the staff's view that the quality of interim PRSPs varied widely between different countries, the staff representative confirmed that Mr. Callaghan was correct in assuming that this was related to relative capacities in the different countries. There were indications that a country's capacity to implement poverty reduction measures was related to its own experience in developing PRSPs, which varied widely between countries. In particular, those countries with longer experiences in carrying out participatory processes were those that had produced the best quality I-PRSPs.

The staff representative from the World Bank (Mr. Morrow) indicated that the complete substitution of investment lending for PRSCs had clearly not been envisaged in the discussions held on PRSCs thus far. They would likely be regarded as another instrument available for IDA lending. The mix of instruments to be used in each case would be determined through the Bank's processes for the definition of the country assistance strategy. One would expect PRSCs to become an important financial instrument in some countries, whereas in other IDA countries, investment lending might continue to be the primary instrument. Nevertheless, the PRSC guidelines had not been completely finalized by the Bank's Board, and it would be premature to include them in the staff's report that was currently being discussed.

On the mechanisms to track the implementation of PRSPs, the staff representative from the World Bank explained that the authorities would be requested to prepare annual progress reports on their PRSPs which would be subject to a JSA according to the initial design of the instruments for the PRSP approach. The first progress report had been issued by the Ugandan authorities, which had also been the first country to issue a PRSP, and the expectation was that this would be the routine procedure for the Bank's and the Fund's Boards to track the implementation of PRSPs. Moreover, PRSCs would likely be designed within a multi-year framework that would be based on the PRSPs but presented to the Bank's Board as requests for annual credits, providing the Board the opportunity to track the implementation of the broad PRSP and of the specific measures supported by the Bank.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/01/34 (4/6/01) and EBM/01/35 (4/10/01).

2. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 98/47, 98/59, 98/89, 98/91, 99/10, 99/58, 99/64, and 00/57 are approved.

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors, by Advisors to Executive Directors, and by an Assistant to Executive Director as set forth in EBAM/01/37 (4/6/01) is approved.

APPROVAL: August 29, 2001

SHAILENDRA J. ANJARIA
Secretary