

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 88/69

10:00 a.m., May 4, 1988

M. Camdessus, Chairman

Executive Directors

A. Abdallah
F. Cassell

C. H. Dallara
J. de Groote

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G. A. Posthumus
C. R. Rye

A. K. Sengupta
K. Yamazaki
S. Zecchini

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J. Prader
E. V. Feldman

B. Goos
J. Reddy
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D. McCormack
N. Toé, Temporary
P. D. Péroz, Temporary
C. Noriega, Temporary
M. Fogelholm
D. Marcel

A. A. Agah, Temporary
L. E. N. Fernando

L. Van Houtven, Secretary and Counsellor
D. J. de Vos, Assistant

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Also Present

IBRD: E. Grilli, U. Thumm, Operations Staff. African Department: A. D. Ouattara, Counsellor and Director; E. L. Bornemann, Deputy Director; G. E. Gondwe, Deputy Director; I. A. H. Diogo. Asian Department: W. M. Tilakaratna. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; A. Basu, B. Christensen, H. Hino, S. Kanesa-Thasan, M. Nowak, R. L. Sheehy. External Relations Department: P. E. Gleason. Legal Department: H. Elizalde, A. O. Liuksila. Middle Eastern Department: A. S. Shaalan, Director; M. Yaqub. Secretary's Department: C. Brachet, Deputy Secretary. Treasurer's Department: T. Leddy, Deputy Treasurer; D. V. Pritchett. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: M. B. Chatah, A. G. A. Faria, S. M. Hassan, P. Kapetanovic, K.-H. Kleine, G. Pineau, A. Vasudevan. Assistants to Executive Directors: N. Adachi, F. E. R. Alfiler, H. S. Binay, R. Comotto, E. C. Demaestri, F. El Fiky, S. K. Fayyad, B. Fuleihan, S. Guribye, C. L. Haynes, J. M. Jones, V. K. Malhotra, L. M. Piantini, S. Rebecchini, A. Rieffel.

1. POLICY FRAMEWORK PAPER AND AID COORDINATION, AND RELATED ISSUES -
REPORT ON FUND/WORLD BANK SEMINAR

The Executive Directors considered a paper prepared jointly by the staffs of the Fund and the World Bank on the discussion at a seminar, held on February 8-9, 1988, for senior officials of selected recipient countries and representatives of major aid agencies, development banks, the Commission of the European Communities, and the OECD, on the topic of the policy framework paper and aid coordination, and related issues (EBS/88/65, 3/23/88). They also had before them a background paper prepared by the World Bank reviewing its experience with the policy framework paper process (EBS/88/65, Sup. 1, 3/23/88).

Mr. Abdallah made the following statement:

When the policy framework paper was first introduced, its main purpose was to provide a general framework for medium-term, growth-oriented adjustment in countries eligible for structural adjustment arrangements by identifying the major immediate economic difficulties and longer-term development constraints facing a country and by outlining the broad thrust of the authorities' macroeconomic and structural adjustment policies to address those problems. The policy framework paper was also intended to assess a country's external financing requirements and to serve as a basis for mobilizing resources.

Many countries that were eligible for structural adjustment arrangements hoped that the policy framework paper would focus more on structural and longer-term development issues to complement the traditional macroeconomic policies under Fund programs. Unfortunately, structural policies have been given little attention in the policy framework papers. The World Bank's review of its experience presented in Supplement 1 of EBS/88/65 indicates that the content of policy framework papers has reflected clearly the priority given to macroeconomic adjustment in most countries eligible for the structural adjustment arrangement, and conversely, relatively little focus has been placed on, and a relatively low priority has been given to, sectoral policies that seek to relax structural constraints. However, countries that had a structural adjustment arrangement were aware that the policy framework papers could not be an elixir for all developmental and structural problems that they faced. We must not forget that most of these countries have development plans and that the policy framework papers cannot be a replacement for these plans. Moreover, the policy framework paper process has been in operation for less than two years, and time is therefore needed to gather useful experience and to reach maturity before making it a standard model.

At this time, the only position one can take is that policy framework papers should be selective in what they cover and

should focus strongly on the main purpose of structural adjustment, which is to promote growth. The process must involve the national authorities from the start, so that they can identify with the paper, have enough time to mobilize the necessary domestic support, and feel really accountable for the formulation of the framework and its implementation.

Policy framework papers must be treated as an adaptable instrument to avoid the well-known problems associated with rigid planning. One such problem is that rigid adherence to achieving specific targets within a given time frame might narrow policymakers' room for maneuver in the longer term and contribute toward inefficiency. This is not to say that the policy framework papers should be bland documents--specification has its virtues. However, it might not be practicable to include detailed timetables and policy measures in a paper that looks three years into the future, knowing fully well the fluidity of the economic environment in the countries concerned. Specific policy commitments should be addressed in the annual programs, taking into account a realistic assessment of the social impact of adjustment measures--especially on more vulnerable groups--which would require that efforts be made to quantify these social costs and to provide the necessary means of financing to mitigate them. The Fund needs to develop expertise in assessing the social impact of adjustment; meanwhile, it can benefit from the experience of the World Bank in this respect. The policy framework paper should also contain the key assumptions underlying the economic and financial projections and the amounts and nature of external assistance that are required. It would also be useful to identify the likely sources of external financing.

As I have suggested, the full participation of recipient countries in the preparation of the policy framework paper is a crucial element in the success of adjustment programs. The policy framework paper was intended to be the authorities' document prepared with technical assistance from the Fund and World Bank staffs. I suggest that discussions on major issues with the authorities precede the drafting of the policy framework paper; this will ensure that the draft policy framework paper is consistent with national aspirations and the commitments of recipient countries and that it emerges after thorough discussions of all policy options and their implications. There is evidence that in some of the policy framework papers already negotiated, the authorities came to realize the full implications of some of the measures much later, a development that did not enhance their self-image. Everything must be done to avoid pushing the authorities faster than they can move.

The policy framework paper should not become the focal point of all financial assistance to eligible countries, including direct project loans and grants. That would be tantamount

to saying that the policy framework paper is the one document that contains all the answers to a country's economic ills. Clearly, such a claim would be absurd; yet, in practice, I noticed tendencies that point in this direction. Structural adjustment is about, among other things, changing peoples' basic attitudes, forming a social consensus to implement new policies, developing the expertise in the civil service for effective management, and reorienting production relationships. These factors can never be reduced to a simple matrix. There will always be an element of unpredictability in economic programming--even in industrial countries--but, this is likely to be a bigger problem in low-income economies where climatic vagaries and ever-declining commodity prices often render economic assumptions obsolete over a short period of time. For these reasons, the staff must be cautious and ready to review the original assumptions underpinning a given economic program.

The foregoing comments on the policy framework paper is not meant to suggest that there is no merit in using it to improve aid coordination; donors should, of course, make whatever use they can of the policy framework paper. However, aid coordination is best undertaken through the active support of recipient countries and multilateral agencies like the World Bank, which has already gained valuable experience in the area of cofinancing and in organizing consultative group meetings. The Fund has often emphasized that it is not a development institution; it would be a contradiction if, through the policy framework paper, it took upon itself the job of chief aid coordinator for countries facing serious development problems.

There can be no doubt that the policy framework paper must be regarded as an important document, but it cannot be the only one. Moreover, the practical difficulties involved in donors' active participation in the preparation of the policy framework paper should not be underestimated. Such participation has the potential of further complicating an already complex situation, in which a recipient country is faced with the difficult task of satisfying the different and, at times, conflicting interests of donors. However, the involvement of donors could play a positive role if it became a means of making the policy framework paper an effective tool for mobilizing additional resources, which has not been the case so far. In other words, donors will not only be called in to offer suggestions on economic policies in recipient countries at any appropriate time, but they will also be expected to take the opportunity to commit themselves to providing an adequate flow of the concessional resources required to support the adjustment effort.

My chair's views on Fund/Bank collaboration are known: we favor such collaboration as long as it does not result in cross-conditionality or lead to protracted delays in negotiations.

Despite the fact that the Fund's formal position is that collaboration between the two institutions should avoid cross-conditionality, in reality, many members have been experiencing something approaching informal cross-conditionality. We must guard against such a development.

The staff representative from the World Bank said that the discussion in the Bank Board on the first review of that institution's experience with the policy framework paper and process had been articulate and fruitful in that it had illustrated some very important areas of agreement among Bank Directors. There was a broad consensus on the need for greater recipient country involvement in the policy framework paper process to strengthen internal policy coordination and the commitment of recipient country governments to the agreed medium-term programs. There was also consensus on the need for a longer-term orientation of the policy framework papers to provide an appropriate focus on priority development issues. Directors felt that to enhance the value of the policy framework papers in the Bank's dialogue with low-income countries, the papers should focus more deeply on sectoral and growth issues, including the external financing requirements of minimum growth targets in production and/or per capita consumption.

There was also agreement among many Directors on the need to go beyond the actual content of the policy framework paper and to establish new uses or roles for the paper in the Bank's internal procedures, the staff representative from the World Bank continued. Most Directors, however, felt that to establish a formal link between those papers and Bank adjustment lending would likely generate resistance and costs in excess of the benefits of such action. The discussion pointed out also that while considerable progress had been made with the policy framework paper and process, the process itself was a continuing one.

The dialogue between countries, the Fund, and the World Bank over the necessary components of a policy approach that could assure adjustment and growth needed not only to be continued, but also become stronger, the staff representative from the World Bank observed. However, most Directors felt that care was required to keep the process within certain bounds and to avoid cross-conditionality, or, at least, the perception of cross-conditionality between the Bank and the Fund.

Directors felt that the experience thus far gave reason to be optimistic about the future of the policy framework paper process, the staff representative from the World Bank noted, and the Directors expressed the view that the Bank should contribute fully to the promotion of that process.

There was some discussion on the issue of where in the World Bank the policy framework paper reviews should take place, such as in the Board, or in the Board as a Committee of the Whole, the staff representative

from the World Bank concluded. It was decided that the Board should continue to meet as a Committee of the Whole to review the policy framework papers.

The Chairman said that although he understood that the majority of the Bank Board thought that linking the policy framework paper to Bank lending was a more costly than beneficial procedure, he wished to have further elaboration on that point.

The staff representative from the World Bank said that the majority of the Bank Board wanted the link between the policy framework paper and Bank structural adjustment lending to be an informal one, not a formal one. In other words, the link should involve channeling as much Bank structural adjustment lending as possible into countries that were eligible for the policy framework paper or a structural adjustment arrangement, without making Bank lending conditional upon the existence of the paper.

The Chairman commented that apparently the debate in the Bank Board was more about the appropriate degree of formality in any link between the policy framework paper and Bank structural adjustment lending, than on the substance of the paper itself.

The staff representative from the World Bank agreed with the Chairman.

Mr. Cassell said that he opposed the formal linking of policy framework papers with World Bank lending, because the loan procedures would become very rigid and complicated. However, the policy framework paper should be integrated into the Bank's country-lending strategy; individual operations that came to the Board should identify clearly the relationship between the lending strategy, the paper, and its policy matrices.

Mr. Goos asked whether the Bank Board had decided exactly how much longer the time frame of the policy framework papers should be, and whether the rolling three-year framework was sufficient.

The staff representative from the World Bank replied that Bank Directors had not specified a precise time frame for the policy framework papers. The underlying assumption was clearly that the three-year horizon would be sufficient for a country to attain certain objectives, but not others, and, therefore, the appropriate time horizon would depend on the specific content of the papers. However, a couple of Bank Directors had indicated that they preferred the policy framework papers to have a period of about five to six years, while others pointed out that the three-year rolling framework did offer a measure of flexibility to address some of the more complex and more structural problems. The discussion had been mostly about the content of the policy framework papers, such as structural issues, constraints, growth, and sectoral priorities.

Mr. Yamazaki made the following statement:

The discussion on the policy framework paper and aid coordination is particularly timely as it comes when the enhanced structural adjustment facility is ready to become operational, with its loan terms having been decided. The enhanced structural adjustment facility will no doubt increase the role that the papers will play in helping to ensure effective adjustment.

The policy framework paper content and process should be reviewed and improved continually. The increased collaboration between the Fund, the World Bank, and donor countries through the policy framework process is very beneficial. However, since we have only two years of experience with the policy framework paper approach, the papers are far from satisfactory. The difficulties and frustrations that are emerging in the policy framework paper process are inherent to any new undertaking; moreover, the enhanced structural adjustment facility will add a new perspective to the policy framework paper approach. Therefore, sustained and flexible refinement of the policy framework paper content and process to intensify aid coordination and Bank/Fund coordination is very important.

As the preparation of policy framework papers involves large commitments of resources and time from recipient countries, the Fund, and the World Bank, I strongly support greater selectivity and prioritization in the papers to streamline the process. Moreover, policy framework papers that are more concise will be circulated more widely, which will ensure further capital inflows from various sources to recipient countries. If we are successful in reforming the policy framework papers by making them more succinct, the disclosure of the papers to private banks will facilitate inflows of private resources to recipient countries.

It is a cause for concern that excessive coverage in policy framework papers might not only make it politically risky for recipient countries to implement them, but also hamper the credibility of the papers in case of failures of the authorities to implement all of the proposed measures. Furthermore, complicated and excessive descriptions in policy framework papers--even of key policy areas--will entail longer formulation and implementation periods and tangle the dialogue between donor and recipient countries. I therefore suggest that policy framework papers should focus on key policy areas succinctly and be linked with other documents to satisfy the various needs of aid institutions.

Policy framework papers should address particular areas that each recipient country has to tackle; a uniform approach in their design and implementation should be avoided, although I recognize that the papers have generally been similar.

To ensure the full commitment of governments to the policy framework papers, authorities should be given greater input into the papers. However, as increased input would require a longer process and claim larger resources from recipient countries, the World Bank, and the Fund, the current practice in preparing policy framework papers may be the inevitable one, which I am prepared to support. Nevertheless, more time and flexibility in the formulation of policy framework papers should be allowed for, so that authorities can develop their views fully and the papers will reflect these views. Therefore, I support the staff's suggestion to send additional or longer missions for negotiations with the authorities as long as time and staff resources allow. Moreover, I concur with the staff that, in formulating the first-year policy framework papers, the staff should not prepare full drafts, but notes to serve as the basis for the discussions with the authorities, if those notes are appropriate. The notes should be used in cases in which the authorities have shown good performance records and in which they have generally agreed with the staff on major policy issues. The staff should also make closer contact with the authorities to better reflect the latter's intentions and to reduce the burden on missions in the cases in which drafts are prepared in Washington.

The Japanese authorities have referred to policy framework papers in designing their aid policy; however, they are greatly concerned that donor involvement in the policy framework paper process might impede smooth decision making on aid policies. For example, the Japanese authorities have to coordinate several governmental agencies and manage a rather complicated process for decision making on bilateral aid. Under these circumstances, increasing donor involvement in the policy framework paper process will lead to further entanglement of the process. It is important to recognize that each donor country has its own governmental system for bilateral aid; therefore, the policy advice of bilateral aid agencies should be incorporated into the policy framework paper process only through the recipient country, which will also help the papers to reflect the authorities' initiatives.

I have strong reservations about the contacts between the staff and local representatives. Given the governmental structure of Japan on aid policy, staff contacts with local representatives will only hamper the domestic coordination process on aid policy and unduly delay decision making. Therefore, I urge the staff

to consult with the Executive Directors' offices that represent donor countries to find the appropriate means of making contacts with aid agencies.

Fund/Bank collaboration through the policy framework paper process is the most important topic under consideration. The coordination between the two institutions that has been achieved through the policy framework paper process is striking; and although much remains to be done, we are moving in the right direction to intensify the collaboration of the two institutions. I hope that further coordination will be attained along the extensive path that we have been on.

Mr. Dallara made the following statement:

The Board is fully aware of my authorities' strong interest in the policy framework paper, and in the process that has developed around this paper as a means of increasing the effectiveness of the efforts by the World Bank and the Fund to support members that are interested in undertaking comprehensive economic adjustment programs within a medium-term context.

During the review of the structural adjustment facility in June 1987 (EBM/87/91), I expressed our satisfaction with the considerable progress that had been achieved in launching policy frameworks and in sorting out the inevitable problems that arose in starting up this new process. At the same time, I mentioned a number of our concerns with the policy framework papers. In particular, I expressed some disappointment with the apparent role that the policy framework paper was playing in guiding World Bank lending and in mobilizing bilateral aid flows to countries eligible for structural adjustment arrangements. I also offered a number of suggestions for improving the content of the policy framework papers.

Despite the fact that there remains substantial room for strengthening the role of policy framework papers, I wish to stress that I am much encouraged by the growing interest in the papers among low-income countries and bilateral aid donors, and by the greater willingness of the staffs of the Fund and World Bank to incorporate the papers into their work and plans. I also very much welcome the seminar that was conducted jointly by the Fund and the Bank. It has clearly added to the broader understanding of the role of policy framework papers in our capitals, while also enhancing awareness among the managements and staffs of the Fund and the Bank of the views of donor and recipient countries.

Policy framework papers have also clearly imposed a difficult burden on the Fund and Bank staffs as they try to respond to a

wide range of concerns and interests in a constructive fashion. Perhaps the staff sometimes wants to throw up its hands in frustration, because many of these concerns--as the joint staff paper points out--go in somewhat different directions. However, by and large, the staff paper's suggestions for dealing with conflicting signals without compromising the basic objectives of timeliness and comprehensiveness are constructive.

In keeping with our general interest of building Fund/Bank collaboration and the role of the policy framework papers in particular, Secretary Baker made some specific proposals at the 1987 Annual Meetings. Although the staff paper that we are discussing today does not address all of these proposals, this is the first opportunity that we have had to comment fully on them.

One of Secretary Baker's proposals was to better integrate World Bank lending into policy framework papers. In this connection, I welcome the discussion that has just occurred in the Bank Board. While we appreciate that the sense of the Bank Board was to have a relatively informal linkage between policy framework papers and Bank lending, there was, nevertheless, broad recognition of the need for a positive linkage; and this should provide a framework for clearly moving in the direction of a closer association between Bank lending and the papers.

Another suggestion made by Secretary Baker in 1987, reiterating what we thought was one of the original principles of the structural adjustment facility, was to achieve greater integration of the Fund/Bank missions negotiating policy framework papers. I see in the table attached to the staff paper before us today that no joint missions--in a formal sense--were used to negotiate any of the 44 policy framework papers issued to Directors during the past two years. In half of the cases, policy framework papers were negotiated by parallel missions. In the remaining half, all of the missions were led by the Fund, and the average mission contained four Fund members and one World Bank staff member.

The staff paper concludes that the two institutions should continue to follow flexible procedures with respect to mission composition with a view to ensuring the consistency of their advice, while minimizing staff resource costs and delays. I basically share this conclusion, as far as it goes. However, I urge the staffs and the management to make a greater effort--within the overall objectives of flexibility and cost minimization--to organize missions that are genuinely and indisputably joint missions from the perspective of the two institutions as well as that of the recipient countries.

In this connection, it would be useful for some of these missions to be led by World Bank staff. Over time, the integration of thinking that must occur if the policy framework paper is to become a more useful document would be facilitated if a greater effort was made at institutionalizing joint missions, and rotating somewhat the leadership of these missions, which may, of course, require some adaptation in the internal procedures of the institutions, particularly the Bank. This is obviously a matter for the Bank management and the Bank Board to consider, but the willingness of Fund management and staff to move in this direction might be enhanced if the procedures for preparing policy framework paper negotiating missions were more similar in the two institutions.

In this connection, I also noted the reference in the joint staff paper to the use of a joint memorandum to serve as a common basis for the negotiation of a second- and third-year policy framework paper. It would be a modest but significant step forward to give this memorandum more of the status of a joint negotiating brief by having it formally endorsed by the managements of both institutions. In addition, I have noted the reference in the staff paper to the importance of having participation in Fund policy framework paper negotiations by staff who have the authority to negotiate on behalf of their institutions. It is my impression that this tends to be more of a problem on the Bank side than on the Fund side, and I will urge Bank management, through the appropriate channels, to consider ways to address this problem.

Another proposal that was elaborated on by Secretary Baker in 1987--which actually draws on the views of other Ministers and Directors expressed on earlier occasions--was that the Fund formally or informally put together a group of Directors from both institutions to review policy framework papers. While a number of Directors have expressed interest in moving in this direction, we are aware that a number have reservations. In particular, some reservations appear to be related to the lack of tradition in the Bank Board for reviewing country policies and strategies. Nevertheless, I continue to see substantial potential benefits from bringing together Directors from both the Fund and Bank to exchange views on policy framework papers in general, to consider specific papers, or perhaps to discuss simply in an informal setting broader questions of Fund/Bank collaboration. Over time, these joint meetings could lead to an environment that would be conducive to the speedier resolution of the differences that will arise inevitably in the course of policy framework paper negotiations with member countries. I hope that stronger collaboration at the level of the Boards would breed a better understanding of the different perspectives that each institution has on growth, development, and adjustment.

I am presently in the process of reviewing the initial reactions of Directors to my chair's earlier proposals, and have recently engaged in further informal discussions with some Directors on this issue. In the weeks ahead, I hope that we will be able to find an appropriate and satisfactory means of moving forward. In this connection, the seminar that recently took place has a special significance: even if the two Boards are reluctant to meet together, they have recognized the need to bring officials from capitals together. This was done in a most constructive fashion at the seminar in February 1988.

With respect to the content of policy framework papers, it is rather clear that it will be difficult, if not impossible, for these papers to be all things to all parties. At the same time, there is clearly an interest by participants in finding a better sense of the policy priorities over the medium term and for giving the policy framework papers greater specificity.

While I fully agree with the need for a greater sense of priority being elucidated in these papers, greater specificity is a difficult matter. It could run counter to what I consider to be one of the most important objectives of these papers--comprehensiveness. Perhaps the aim should be to have a comprehensive policy framework paper outlining an integrated package of structural and macroeconomic policy changes, the timing of these changes, their relative priorities, and some additional specificity--as the staff and the country may deem appropriate--on policy areas of particular concern.

In most cases, additional information on external assistance requirements will need to be included in policy framework papers; my chair has made this point in its comments on a number of specific policy framework papers. If this additional information is included, I see no need for the staff to produce separate papers on financing requirements.

Another substantive issue that has arisen is how much detail and how much focus to place in the policy framework papers on public investment and expenditure programs. In this respect, I agree with the staff that by referencing other papers of the Fund and the Bank, the policy framework papers themselves need not go into tremendous detail. However, I would find it helpful if the policy framework papers more clearly articulated the relative importance of expenditure constraint together with the choice between capital and current expenditures, and highlighted the particular components of current or capital expenditure to which additional attention should be given.

With respect to the involvement of recipient countries, I support the notion that, to the extent practical, recipient countries should be involved at an earlier stage and to a larger

extent than they have been to date. Earlier involvement should not be inconsistent with the need to maintain high standards that apply across countries with respect to the objectives, scope, and pace of adjustment over the three-year period covered in policy framework papers.

I agree with the conclusion in the joint staff paper that the involvement of bilateral donors should be increased through informal discussions, either with donor representatives in the recipient countries, or with officials in donor capitals. It should go without saying, of course, that in all cases the involvement of bilateral agencies should be coordinated through the offices of Directors. However, I do not wish to stand in the way of some practical progress on this front where opportunities may arise in the field.

As the staff paper suggests, the particular modalities will vary from case to case, but I support the notion of touching base at an early stage with the two or three largest donor countries. If, in the end, the policy framework paper is to be a useful paper for guiding the activities of aid donors, the latter must feel that they have some input at a relatively early stage, and this input should be provided in a way that does not delay the process.

The staff and managements should be commended for holding the joint seminar for bilateral donors, and for preparing the excellent paper under consideration, which I believe is a modest step forward in Fund/Bank collaboration.

This chair has stressed time and again the difficulty that many countries have in achieving satisfactory rates of economic growth with a viable payments position in the absence of a comprehensive medium-term program that integrates structural and macroeconomic policy components. The policy framework paper is clearly emerging as a paper that can help countries and help the two institutions move in the right direction in developing such programs.

Mr. Marcel made the following statement:

I broadly agree with the positions expressed in the summary of issues in the staff paper. The papers presenting the medium-term framework of policies and prospects should probably continue to evolve to become more useful and more relevant. A clearer identification of the key issues and prioritization and sequencing of the reform efforts should help to improve the content of the policy framework papers, and might help to make them more individualized; at times it is disturbing to note the resemblances between the papers for very different countries. Moreover,

coverage of such issues as the social dimensions of adjustment and a country's debt-servicing capacity would provide essential information. In any event, the length of the policy framework papers should not increase if we want them to be more widely recognized and utilized.

An increased role by the authorities is certainly essential for the better integration of the adjustment process within a country and for securing their strong commitment to the policy framework paper process. However, given the plight of the recipient countries, we must keep in mind our objective of extending and disbursing structural adjustment facility resources as quickly as possible. Mr. Abdallah's suggestion that discussions of the major issues with the authorities should precede the drafting of policy framework papers goes in the direction of deepening the involvement of the recipient and is probably a realistic compromise between the present situation and the option of giving the recipient country the entire responsibility for drafting the paper.

The policy framework paper process has certainly resulted in a deepening of the dialogue between the Fund and the World Bank. Of course, in some cases, collaboration seems to have been particularly difficult and time consuming, although this is not abnormal and is actually a sound procedure--provided that we maintain a constructive dialogue. There is no simple solution to the difficulties facing the recipient countries; therefore, given the different perspectives of the Fund and the World Bank, the medium-term strategy is almost necessarily the result of a compromise. The important point is that once completed and agreed on, policy framework papers become the documents of reference on which the Fund and the World Bank base their reflections and operations.

In this respect, the inclusion of two scenarios in the policy framework papers, as we have seen in several of the papers, is not quite consistent with the requirement that these papers should be an overall framework. In fact, having two scenarios might make it possible for the three parties involved to agree on the general aspects of the paper, but to stick to their own forecasts and to favor one of the two scenarios. For instance, the World Bank may favor a growth-driven scenario and the Fund a resource-driven scenario, which would certainly not go in the direction of building a stronger consensus in the recipient country. Moreover, it would send a mixed message to the donors that are called on to support the program.

The present organization of the missions has apparently yielded good results: the simultaneous presence of World Bank and Fund teams seems necessary and is certainly to be encouraged, as is the participation of more balanced teams than appear

in Table I of the staff paper, which shows that the Bank staff outnumbered that of the Fund. Some comments on this apparent imbalance would be useful.

Mr. Almeida made the following statement:

The growing body of experience with the evolving policy framework paper process has underlined the process' considerable importance to all of the parties involved. The recipients are becoming more actively involved in the preparation of the policy framework papers, multilateral and bilateral donors are better orienting their activities, and the World Bank and Fund are ensuring increasing consistency in their policy advice to countries that are eligible for structural adjustment arrangements.

The recent seminar on the policy framework paper process confirmed these findings and endorsed the process as an important vehicle for mobilizing international resources for programs and projects, which could fit into the economic programs pursued by countries eligible for structural adjustment arrangements. The seminar was also helpful in clarifying issues and problems in the present operational modalities of the policy framework paper process, and in defining an agenda for the future evolution of this most important new instrument for catalyzing the projected financing required to support the policy framework in the paper.

Nevertheless, caution is required if the policy framework paper process is not to lose its key function of providing a framework for medium-term policy reform programs agreed to between the country, the World Bank, and the Fund, so that the paper can play its role of acting as a reference point for multilateral and bilateral donor financing. We must prevent the policy framework paper process from evolving into an instrument for meeting the wide-ranging objectives of the multitude of audiences that are being increasingly served by the policy framework paper; I therefore agree with the staff's warning about the difficulties involved in designing an appropriate form and content for the paper that can satisfy the different and, at times, conflicting needs of all potential users. The staff's advice for resolving this dilemma is instructive: linking the policy framework paper process with the Fund/Bank staff papers so that in the policy framework paper process the material will focus more selectively on macroeconomic and structural problems, the sources of economic growth, and the authorities' strategies and priorities for tackling key structural reforms over a three-year period. On the other hand, in the Fund/Bank staff papers, there will be more detailed coverage of economic policy issues, while preserving the respective mandates, responsibilities, and expertise of the two institutions. The maintenance of the

distinct character of each institution is important if the views of the authorities are to be developed and reflected fully in the respective papers; of course, this can be done without unduly extending the process of pre-negotiations, analysis, and discussion. While the views and concerns of donors could be addressed by building on existing arrangements, it remains true that excessive donor involvement in the policy framework paper process could be counterproductive.

Nevertheless, the policy framework paper process is evolving, and we must ensure that its present modalities remain flexible so that the resulting policy framework will always ensure that there is an appropriate blend of adjustment, financing, and growth.

Mr. Feldman made the following statement:

I fully recognize the complexity of the problems facing the low-income countries and the difficulties inherent in the process of negotiating arrangements that may lead to comprehensive structural changes and that help to mobilize adequate financial support. As a consequence--and to expedite the provision of appropriate financial resources--I generally favor more flexible approaches in the approval process for structural adjustment arrangements. The timely availability of these resources is crucial to the successful completion of structural reforms and to the success of structural adjustment facility operations in general.

There is no doubt about the importance of the policy framework papers. The papers describe a three-year policy framework, are one of the requirements for qualifying for assistance under the structural adjustment facility, and are also supposed to be a catalyst for directing additional resources to low-income countries. The seminar's key conclusions point to the need for enhancing the usefulness of the policy framework papers in the coordination and mobilization of aid resources for low-income countries.

I fully agree with Mr. Abdallah that policy framework papers should be selective in their coverage and should focus strongly on the main purpose of structural adjustment, which is to promote growth, and I agree with the staff that the content of the papers should reflect the priorities of the reform efforts. The policy framework papers should also include a more complete description of long-term development policies, more emphasis on the social impact of adjustment programs, and a specific discussion of the amount of external assistance required to support policies that are implemented.

The staff paper from the World Bank specifies the elements that have been contained normally in the policy framework papers, or, in other words, provides a diagnosis of countries' more immediate difficulties and longer-term development problems, the objectives of macroeconomic and structural adjustment policies and the means of meeting these objectives, the likely financial situation during the years to come, and some indication of the social and economic consequences of the adjustment strategy. It is clear that overlapping information with other staff papers prepared for a country's program, especially the structural adjustment facility or enhanced structural adjustment arrangement papers, is undesirable on any grounds. I tend to agree with the staff paper from the World Bank that more emphasis should be given to sectoral policies seeking to relax structural bottlenecks; in this sense, the strengthened guidelines for the preparation of the policy framework papers--which tend to reach a more appropriate balance between macroeconomic stabilization and growth-oriented structural adjustment--are welcome.

I also agree with the staff that the numerous constituencies served by the policy framework paper make it difficult to design an appropriate form and content that can satisfy all the different, and at times, conflicting needs of potential users. These difficulties might result, to some extent, from the differing objectives of the parties involved in the policy framework paper process. Incidentally, the staff should comment on the relatively minor participation in the seminar of countries eligible for the structural adjustment arrangement; the eligible countries directly represented at the seminar were limited to Ghana, Kenya, and Bangladesh.

For the policy framework paper process to be successful, recipient governments should play a key role in the preparation of the papers. Recipient governments' strong involvement and commitment are extremely important in avoiding domestic political difficulties and for facilitating the implementation and understanding of the tough policy measures that the program usually entails. The urgent need to provide necessary financing should not be an obstacle to the appropriate participation of recipient countries in the policy framework paper process.

The policy framework papers could assist aid agencies in better orienting their activities to enable them to contribute further to the achievement of a recipient country's objectives. Any further involvement of donors in the policy framework paper process could be counterproductive, however, as it might complicate the completion of the negotiations and, consequently, imply additional delays. Moreover, the greater involvement of donors could raise sensitive political issues in recipient countries.

The task of both the Fund and the World Bank staff could also be adversely affected by the formal participation of donors in the policy framework paper process.

Close collaboration between the Fund and the World Bank is also needed. In making collaboration more efficient, the unnecessary allocation of human resources--caused by the preparation of policy framework papers containing overlapping material--should be avoided. Both institutions should avoid cross-conditionality in their financial programs, and I encourage the institutionalization of joint missions for the negotiation of policy framework papers. A more balanced and simultaneous consideration of the macroeconomic and structural policies of growth-oriented adjustment programs is necessary in the Fund/Bank effort; this approach would be more helpful and constructive in the design and implementation of programs for low-income countries and for middle-income indebted economies.

Mr. Toé made the following statement:

The staff paper provides a balanced assessment of the seminar on policy framework papers and aid coordination in low-income countries held in February 1988. I particularly welcome the opportunity it gives for further exploring avenues to improve the preparation and use of policy framework papers. The seminar also provided an opportunity for the Fund, multilateral agencies, donors, and recipient countries to exchange views and share experiences on the policy framework paper, its objectives, content, and its role in aid mobilization and coordination. The conclusions to be drawn from the seminar are well summarized on page 2 of the staff paper.

The first conclusion of the seminar is that the policy framework papers have been used only sparingly by aid agencies. While the potential for them to play a useful role in bilateral aid decisions and coordination does exist, it is clear from the seminar that they have not been an important input in the decision-making process of donors in their allocation of aid resources. Most importantly, despite the efforts made by the staffs of the Fund and the World Bank, the policy framework paper has not proved to be the catalyst that it was designed to be. From the seminar it became clear also that the policy framework paper, as designed presently, cannot help much in mobilizing and coordinating aid for the benefit of recipient countries; hence, many suggestions have been made to improve its design. However, as is noted in section 2 of the staff paper, these suggestions cover a wide range of topics and are at times conflicting.

From the suggestions that were made on the content of the policy framework paper at the seminar, it seems that participants in the policy framework paper process hold some contradictory views. All the participants recognized that for the policy framework papers to become more useful in aid operations, their content would need to be made more selective and should focus on the key priorities of the medium-term program, yet delegates requested that there be full coverage of issues of particular interest to individual aid donors. The more aid donors are involved in the process, the greater the number of issues that will have to be covered in the policy framework papers and therefore the less selective and prioritized the papers will be. In this connection, I share Mr. Yamazaki's view that political risks will be involved and that the policy framework paper could become less credible; there is also a danger that donors' priorities may conflict with those of recipient countries.

We must not forget that there is an important political element in the design of the policy framework papers: the process of structural reform is essentially a political process that requires extensive negotiations and internal consensus building. It is in this context that participants in the seminar--both recipients and donors--emphasized that the policy framework paper process should, above all, be initiated by recipient countries. The need for an early and full involvement of the authorities in the preparation of policy framework papers cannot be overemphasized. The current practice whereby the staffs of the Fund and the World Bank agree on a draft at headquarters has generated the feeling that the policy framework papers are outside papers that are imposed on recipient countries by the two institutions, which partly explains the apparent unwillingness of some countries to use it in bilateral aid discussions.

Another problem that recipient countries find with the way in which the policy framework papers are designed is that they lead too often to cross-conditionality. If the policy framework papers are to receive the full support of the authorities, their content, or the papers' objectives and priorities, must be set by the authorities themselves. These would, of course, be evaluated by the staffs of the World Bank and the Fund to ensure that the objectives are achievable, that the measures and policies are consistent with the objectives pursued, and that the external financing requirements of the program are clearly identified. It is clear from the recipient countries' point of view that the way the policy framework paper process is conducted at present should be changed; in this connection, I support the views expressed by Mr. Abdallah in his opening statement.

The involvement of aid donors in the policy framework paper process will raise practical problems that will be difficult to overcome, although such involvement is not without use. On

the contrary, donor involvement can be very positive if it elicits increased financial support from the donors involved; but, at this point, it is worth noting that the policy framework papers have been used only sparingly by aid agencies and that donors are unwilling to make multi-year commitments. Such hesitancy would also make it difficult for recipient countries to undertake certain structural reforms requiring financing over an extended period. Inputs from aid donors, while welcome, do not have to lead to the participation of these donors in the drafting of the policy framework papers; such inputs can be sought through informal contacts.

With respect to the role that the policy framework papers can play in aid mobilization, we must not forget that there are other avenues, such as the UNDP Roundtables and the World Bank Consultative Groups, that are playing an important role already. The policy framework papers can be useful inputs in these efforts, but they should not be the focal papers around which all foreign assistance is centered.

It is disappointing to note from the supplement to the main World Bank staff paper that the Bank finds that policy framework papers lack the specificity, monitorability, and depth necessary to enable the papers to be a direct vehicle for its lending operations. For this reason, the Bank is advocating changes in the structure of the policy framework papers. At the same time, the Bank staff came to the conclusion that "the costs that would be incurred to establish a formal link between the policy framework paper and a set of Bank lending operations may well outweigh the benefits that would derive from it," which is something that also struck the Chairman in his comments this morning. If there are such costs to establishing a formal link, then several questions come to mind, namely, where do we go from here, and how useful will a joint committee of the Executive Directors of the two institutions be? For one thing, since the policy framework papers have been effective in ensuring more consistent policy advice by the Bank and the Fund to recipient countries, the process should continue and be improved on. As for the link between the policy framework papers and Bank lending operations, I wish to hear further comments from the Bank staff representatives on the implications for the Bank of the foregoing quote from the supplement to the main World Bank staff paper. It must be recognized that the policy framework paper process has enhanced Fund/Bank collaboration and that this has greatly benefited the recipient countries. However, as my chair has said on previous occasions, enhanced collaboration should not be allowed to lead to cross-conditionality.

From the viewpoint of recipient countries, the policy framework papers could be improved. One method of doing so would be to have recipient countries fully involved in the

drafting of the papers to make sure that their priorities and political sensitivities are taken into account. Informal contacts with donors during the preparation of the policy framework papers can be useful, but a direct involvement in the process can create practical problems and result in protracted negotiations.

Mr. Cassell said that the discussion in the World Bank Board had been articulate and fruitful, although a much wider range of views on the policy framework paper had been expressed than had been heard during the present Fund Board discussion. The two institutions had different understandings of the policy framework paper: in the Fund, the paper's role was seen much more clearly, as it was linked operationally with the Fund's activities; in the Bank, it was regarded by many Directors as being Fund-dominated, in the sense that it concentrated excessively on macroeconomic adjustment measures, had too short a time frame, and did not give sufficient attention to promoting growth. The different perceptions of the policy framework paper's role meant that one could not take it for granted that the Fund and the Bank were moving consistently in making medium-term structural adjustment loans to the same group of countries, although it was self-evident that they should cooperate very closely and have the same objectives. It was rather saddening to hear several Bank Directors say that the Fund had different objectives from the Bank and to come across the suspicion that the policy framework paper, as it presently stood, had benefited the Fund more than the Bank. Mr. Dallara had suggested a number of means by which the Fund Board could counter that suspicion, including holding a joint meeting of the Directors of the two institutions, which could be quite useful if it was an informal seminar in which everyone could speak his mind. Holding a formal meeting between the two Boards was unlikely to happen for quite some time, but there was scope for informal contacts and a process of mutual education.

The Fund/Bank seminar on the policy framework paper had been a very welcome step in promoting that paper's development, Mr. Cassell continued. The U.K. aid authorities had found the seminar a helpful opportunity to offer their views and to receive the opinions of others. As the staff had noted, the seminar highlighted many dilemmas that had arisen in the Board's discussion of the policy framework paper and had uncovered a few new problems that aid agencies and some recipient countries had encountered. There were calls for a common policy framework paper format, but also calls for more differentiation between the papers for various countries; furthermore, some participants wanted the papers to be more comprehensive whereas others wanted them to be more focused, and some wanted both. An important theme was the need for greater input from recipients, although there were also arguments that analyses should be more candid and critical.

The different reactions at the seminar to the policy framework paper were not a cause for concern, Mr. Cassell remarked, as the paper was breaking new ground in attempting to enhance cooperation between the Fund, the World Bank, other donors, and recipients. Like other evolutionary

processes, the development of the paper was likely to be iterative and therefore probably gradual. The seminar would facilitate the Fund's work by bringing it into direct contact with donors and by establishing introductions from which informal working relationships would develop over time.

The policy framework paper was established in 1986 as part of the process behind the structural adjustment facility, Mr. Cassell recalled; the facility required the authorities who sought access to the facility to agree to a three-year economic policy framework with the Fund and the World Bank. The latter requirement had resulted in the policy framework paper already achieving a significant improvement in Fund/Bank cooperation, but the one important test of that collaboration had to be that both institutions used the same basic figures when discussing growth and balance of payments prospects, or when estimating financing needs. As several Bank and Fund Directors had noted, there had perhaps been less success thus far in making the third party in the policy framework paper process--the recipient government--feel fully involved and therefore committed to it. It was absolutely vital to get the recipient government fully involved and for the policy framework paper to, in a sense, be the government's own paper.

The progress in enhancing the usefulness of the policy framework paper thus far was encouraging, Mr. Cassell considered, and he broadly agreed with the staff paper's conclusion that the most effective means for further developing the policy framework paper would be to continue the process begun already. The Board should certainly avoid complicating the work by offering a continuous stream of proposals that, however well-meaning, would keep shifting the parameters of the process.

The objective of the policy framework paper, Mr. Cassell noted, was to promote the systematic coordination of all sources of financing and policy assistance to recipient countries to avoid inconsistency between individual assistance efforts, or the duplication of them. It was probably indisputable that the immediate task in developing the operational identity of the policy framework paper should be to intensify regular cooperation between the World Bank and the Fund in programs in which there was joint sponsorship of structural adjustment. The next stage in the development of the policy framework paper should be the extension of the cooperative framework to encompass other multilateral institutions and bilateral donors. Greater donor involvement seemed to be very desirable, while the full involvement of recipients was an absolute prerequisite at all stages of the policy framework paper process.

Moreover, to allow the policy framework papers to provide a basis for planning by other donors, the papers had to be forward looking and as explicit as possible with respect to the financing requirements and prospects, Mr. Cassell remarked. As the policy framework papers were rolled forward, modifications to previous versions should be clearly identified and explained. Given the structural focus of the policy framework papers and the importance of debt among the problems being

confronted, the papers must have a reasonably long perspective; but, as they were concerned with policy adjustment, efforts to make them become a development plan should be avoided. The operational intensity of the first year covered by a policy framework paper usually meant that there was a need to make policies in that first period much more clearly defined than in the outlying years; however, the policymaking for the full three-year period covered by the paper should be as clearly prioritized and scheduled as was possible.

The coverage in the policy framework papers of countries' institutional capacity and of the social impact of adjustment programs should be further developed as those were very important areas to consider, Mr. Cassell added.

It was highly desirable that the operational role of the policy framework paper in the World Bank be improved by establishing close links between the paper and the Bank's lending strategy, Mr. Cassell reiterated. That perception of the policy framework paper's role did not imply that the paper should be an operational trigger, because that would complicate procedures excessively. The issue of linkage was an emotive one, particularly at the Bank, but as long as the policy framework papers played a clear operational role in the Fund and continued to exist in a rather hazy isolation in the Bank, the perception that the papers were Fund-dominated and had an excessively short-term outlook would likely persist. As one or two Bank Directors had mentioned, the procedures after the Bank's President informed the Fund of the results of a Bank Board discussion were unclear. Greater feedback to the Bank on the results of the Fund Board's discussion of the policy framework papers might help to promote the urgently needed understanding of how the process was intended to work.

The U.K. authorities believed that the experience accumulated with the policy framework papers could be drawn on when approaching the problems of coordination in the context of middle-income countries' programs, Mr. Cassell indicated. Indeed, at the Spring meetings of the Fund and the World Bank, the Chancellor of the Exchequer had suggested that the process might usefully be extended to middle-income countries pursuing structural adjustment in the context of the revitalized extended Fund facility. He would soon make some suggestions about how to advance that process, and he hoped that other Directors would consider them carefully. Given the previous day's discussion in the Bank Board, there certainly was a great need to build bridges between the two institutions and to make every effort to emphasize that they were basically dealing with the same problems, not separate ones.

The Chairman said that he would welcome receiving Mr. Cassell's suggestions elaborating on the Chancellor's ideas about extending the policy framework paper process, and that he agreed with the idea of informing the Executive Board of the World Bank of the results of the current Fund Board discussion. Other suggestions by Directors who, like Mr. Cassell, were also Executive Directors of the World Bank, would also be welcome.

Mr. de Groote made the following statement:

The World Bank staff representative's report on yesterday's Bank meeting was very interesting, but I wish to give my own reading of that meeting. Quite frankly, the Bank Board spent 1 hour and 20 minutes on the procedural question of whether the Board should discuss the issue of Fund/Bank collaboration as a Committee of the Whole or as the Board. Two votes were required--which is rather unusual procedurally--to arrive at the decision that the issue would be discussed by exactly the same people, not as a Committee of the Whole, but as a Board. The time that was spent on this issue of Fund/Bank collaboration and the fact that two votes had to be taken certainly indicate that a procedural question was not at stake, but rather a question of considerable substance, especially as a large number of Bank Executive Directors believe that it is not part of the Bank's role to pronounce itself on countries' development strategies.

Their argument runs as follows. Under its Articles, the World Bank is entitled only to take decisions, such as approving a project, financing a bridge or a railroad, or approving the budget. From these Directors' point of view, these are the real decisions facing the Bank; expressing a view on countries' development strategies is not regarded as a decision, and, therefore, that kind of action must be taken while the Executive Directors are meeting as a Committee of the Whole. Even views on countries or the general philosophy behind the policy framework paper process should not be dealt with by the Bank as represented by its Board. Of course, several Bank Directors took strong exception to this view--for instance, Mr. Cassell and myself.

Many remarkable studies written by the World Bank staff--especially Professor Berg's earliest studies--have clearly shown that many projects turned out to be less useful than was initially expected not because their internal rate of return was incorrectly calculated, or because the technique chosen was not the right one, but simply because these projects were not sufficiently integrated into an overall macroeconomic framework; this was the main cause of many failures or unsatisfactory performances under the Bank's project lending. It has become a widely accepted conclusion, at least at the analytical level, that the Bank's actions cannot be effective--even in the area of project financing--unless a country's development strategies are taken into consideration, and, furthermore, that whatever the Bank is doing--whether project or program financing--has to be seen within an overall economic framework. It is therefore important to give considerable attention to the issues considered at the seminar. However, the Bank Board is reluctant to go beyond the area of what it regards as being decisions, which amounts, frankly, to a refusal by a large part of the Board to get involved in the assessment of development strategies,

which are regarded as lying outside the competence of the Bank. It is difficult to follow the Bank Board's line of reasoning, because it is hard to see how anyone could assess the usefulness of a project without looking at it in terms of an overall framework. In addition--and here I go a little further than Mr. Cassell--this line of reasoning misrepresents the distribution of responsibilities between the Fund and the Bank. It is true that the policy framework papers are too exclusively a Fund product, but the real point is that this is so because the Bank refuses--at the level of the Board--to make any input of its own into the policy framework papers. Each time such a paper comes up, the Fund Board has to force the Bank against its will; the need for two votes on the issue of Fund/Bank collaboration is really a clear indication of the Bank Board's attitude.

Even if the policy framework paper is biased--being oriented too strongly toward demand management and to typical Fund policies--this has come about not because the Fund has invaded the territory of the Bank, but simply because the Bank Board does not accept that the Bank's Articles allow it to play a decisive role in the policy framework paper process. This is the paradoxical aspect of the whole discussion. However, it must be pointed out also that the restrictive view of the Bank's Articles does not seem to be generally shared by the Bank's management and staff, which rather incline to the other view that I have described.

If no means is found to solve the impasse in the World Bank Board, there are two major dangers, one at the level of analysis, and the other at the level of the distribution of responsibilities between the two institutions. At the level of analysis, it must obviously be made clear that the purpose of policy framework papers goes beyond stabilization in the Fund's sense of the word--or, at least in the Fund's traditional sense of the word--otherwise, there would be no difference between the policy framework papers and stand-by arrangement papers. Demand-management instruments can have little effect--especially in low-income countries--unless countries possess appropriate institutions, a market, and an infrastructure; this is why the interaction between demand and structural measures is most clearly visible in the low-income countries. The efficacy of demand-management instruments depends on the preliminary steps that must be taken to organize the structure of these countries; conversely, it is quite obvious that structural adjustment can be effectively pursued only on the basis of a viable long-term balance of payments position. It is therefore a mistake to suppose that we can draw sharp analytical distinctions between responsibilities; the two institutions face the same problem of poverty in low-income countries, which has to be dealt with by using a variety of instruments, each of which may be partly structural and partly demand related.

The other danger arising from the impasse in the World Bank Board lies in the area of the distribution of responsibilities between the two institutions. If no way is found around the impasse, the Bank will, "in absentia," do very little, while the Fund will again have to take full responsibility for setting up all of the details of the policy framework papers. As the Fund Board realizes that it cannot limit itself to recommending demand-management measures to countries that have very low incomes, it will be forced eventually to pronounce on issues like population and agricultural policies; this will not be a welcome division of labor, but it may become necessary if the Bank Board continues to insist that these topics lie outside its competence.

Recipient countries' participation in the drafting of policy framework papers has obviously been rather limited; indeed, this was one of the major criticisms expressed by the representatives of donors and recipients during the very useful seminar on policy framework papers in February 1987. There are, of course, good reasons why recipient countries have played a limited role. The staffs of the World Bank and the Fund have not found the policy framework paper experience to be an easy one, and, in certain cases, authorities have also found it rather distressing to witness divergences in views between the staffs of the two institutions. An even more important factor is that many of the recipient countries did not, and still do not, possess the trained personnel or institutional capacity to take a more active role in the preparation of policy framework papers. The Bank and the Fund should therefore take full advantage of second- and third-year policy framework papers to help build up the institutional framework that is needed to sustain these countries' internal debate, to support their significant contribution to attaining consistent policy approaches, and to increase their participation in the drafting of future policy framework papers. The Bank's Economic Development Institute and the Fund's Institute can also assist the countries in achieving these goals. Moreover, fuller participation will diminish the perception in many beneficiary countries that policy framework papers are imposed from outside, as Mr. Toé mentioned. The damaging nature of this perception is why we must make a very special effort to sustain local initiatives and involve the authorities fully, and from the outset, in the preparation and elaboration of these papers; although it will be expensive in terms of time and effort, this approach is nonetheless absolutely indispensable. Such collaborative efforts cannot succeed unless they include not only the authorities responsible for demand management, but also those responsible for planning and for working together with the Bank and Fund staff.

As was suggested by Mr. Dallara and others, there is a definite need to give priority to policy objectives and reform efforts in the content of the policy framework papers. These papers should not be seen as a detailed development plan that governs the action of the World Bank in all areas, but rather as a blueprint or broad model providing guidance for the Bank's various activities in a given country in the realms of program and project lending. In this connection, it was encouraging to note the suggestion made by the World Bank Executive Director for Italy--like the one that I have proposed many times over the years in that Board--namely, that all World Bank interventions in favor of a given country, including all projects, should be seen in the broad context of the policy framework papers, or other general assessments of the country's economic and development strategies, and that the Bank Board's discussions of projects should make reference to those strategies, whether or not they are embodied in a policy framework paper. In other words, the Bank Board should be continuously informed of the progress of a country's own development efforts; for that reason, the policy framework papers should be very candid and realistic.

The reforms that the two institutions recommend must also be politically and socially sustainable. It seems legitimate to criticize the policy framework papers for heretofore neglecting some of the political and social dimensions of adjustment; in this respect, the case of Zambia is typical. It should have been clear that, in the light of what was happening a few weeks before we discussed the policy framework paper on Zambia, some of the measures would turn out to be socially and politically unsustainable. The confidence displayed by the staff at the moment of that discussion does not seem to have been very well founded: it took only a few weeks before the program collapsed and had to be abandoned. The staff may indeed tend at times to advocate over-ambitious programs in countries with very low incomes and where many basic steps have to be taken before a traditional, full-fledged model program can be implemented. More attention ought therefore to be given to the prior development of infrastructure and to other basic elements.

Another point that should be stressed in policy framework papers is that many of the beneficiary countries are at similar income levels, are located in the same areas, and produce the same commodities. Important externalities for those countries might be obtained if we examined their situations in a more integrated framework. Many of the projects that the Bank supports require a certain scale to be efficient and to have the potential for wider external diffusion. These projects should be fostered in the framework of intraregional economic collaboration between the beneficiaries--especially in Africa--giving full consideration to the division of labor between the countries. For example, an important aspect of this approach is the Fund's traditional

recommendation to single commodity exporters to adjust their exchange rates; but this approach tends to be self-defeating in some regions, where such an action by one country is likely to elicit similar reactions in other countries, thereby leading to competitive chain depreciations of currencies as all countries attempt to promote their own exports of the same commodity. We might find that examining Fund recommendations for single-commodity exporting countries in an integrated, better coordinated regional framework would help to prevent the cycle of reciprocal depreciations from occurring.

Like others, I favored the suggestion of the World Bank Director from Germany that the policy framework papers should be viewed in a five- to six-year perspective, not necessarily in all cases, but whenever such an outlook is needed to obtain an appropriate assessment of the country's development prospects. I suggested at the Bank Board, and wish to do so here, that it might be appropriate to transmit to that Board some of the conclusions of our discussions, just as the results of Bank Board discussions are made known to the Fund Board. Furthermore, I strongly favor the establishment of any forum that would occasionally bring members of the two Boards closer together to discuss various fundamental issues, and more specifically, the essential point with respect to whether or not the Bank is entitled to discuss in the Board its member countries' development strategies. On the latter issue, we might perhaps benefit from a clear interpretation by the legal experts of the Bank and the Fund; this issue may even deserve some attention at the next meeting of the Development Committee.

Mr. Fernando made the following statement:

Judging by the experience thus far, there are two aspects to Fund/Bank collaboration: the collaboration between the respective staffs in designing and providing content to the policy framework paper; and the involvement of the two Boards, which in the case of the World Bank has taken the form of a review of the policy framework paper at a meeting of the Committee of the Whole. Even though the participation of recipient countries in formulating the policy framework paper remains minimal, collaboration between the staffs of the two institutions has progressed rapidly. The policy matrices in policy framework papers--which specify policy actions and provide timetables for implementation--that we have seen in the cases that are coming before the Board, show that the staff of the World Bank has provided input in its areas of expertise. The scope and quality of the policy framework papers are obviously not uniform across countries, but this is only to be expected at the present level of recipient country participation in the process. More importantly, it is more appropriate to have the Letter of Intent

attached to the annual arrangement be the vehicle for delineating the details and timing of actions. It is also certain that indiscretion in handling the policy framework papers that spell out future policy actions in great detail could destabilize the economic environment and undermine the political and social base for adjustment and reform.

The notion of Fund/Bank staff collaboration in the preparation of policy framework papers was canvassed when the Board first discussed the structural adjustment facility in 1985, mainly because it was felt that the staff of the Fund were not as well acquainted with the structural and developmental problems of the low-income countries as the staff of the World Bank. The Fund Board agreed to the policy framework paper procedures rather reluctantly to ensure only that the Bank staff's expertise was made use of to enhance the quality of the policy framework papers for low-income countries. It was not our intention that the Board should be involved in the policy framework paper procedures: when the structural adjustment facility was set up, the Managing Director's summing up stated very clearly that it was expected only that the two Boards would review the policy framework papers before the actual resource commitments were made. As such, the Bank Board's involvement is not a condition for the policy framework paper process.

It is useful to recall the circumstances under which the policy framework paper acquired greater significance owing to the catalytic role assigned to it. When Fund support for orderly adjustment through the structural adjustment arrangement was put in place, the inadequate amount of resources available was thought to discourage members from expressing interest in using the facility and sustaining their adjustment efforts. In this context, although an expectation was created that the policy framework paper would catalyze resources from a wider range of official and financial institutions than was then available, this prospect was not realized. However, while the enhanced structural adjustment facility was created with a substantial increase in direct financial support partly to meet the problem of insufficient resources; there are still likely to be large financing gaps in many cases, which will have to be surmounted with direct bilateral support.

In facilitating bilateral financial support, the policy framework paper itself--whether associated with the structural adjustment or the enhanced structural adjustment facilities--can at best play only a marginal role. Many low-income countries facing growth constraints require, as a priority, sector-based or project-based lending rather than policy-based lending. For these economies, the policy framework paper process has little role to play and should not be promoted at the cost of undermining their eligibility for concessional donor support.

Furthermore, the staff argument that donor involvement in the preparation of the policy framework papers is needed, is shared neither by the donor community nor by the recipients; it is also not practicable. After all, the donor support that has so far been organized typically through Consultative Groups under the aegis of the World Bank, has not involved the donors in the preparation of the basic documents for these groups, a procedure that has been found to be useful by both the donors and recipients.

The recipient countries' involvement in the formulation of the policy framework paper is essential to secure political commitment across all government sectors as well as to determine the time path of adjustment policies within acceptable social and political parameters. The diverse circumstances, needs, and priorities of recipient countries call for flexibility in determining the scope and content of adjustment and policy actions. The absorptive capacity for adjustment and reform, and the pace at which they take place, depend on domestic social and political factors, which are not the same across countries. At a more technical level, the linkage between policies and targets is not yet clearly established, and, as such, the effects of different policy mixes and the sequencing of policy actions on growth--which is our main objective--are uncertain. It would therefore be counterproductive to make the policy framework papers too precise.

The policy framework papers, like the structural adjustment and enhanced structural adjustment facilities, should facilitate Fund arrangements. This was their original purpose, as was reflected in the Managing Director's following clear statement in the summing up when the structural adjustment facility was created: "I also want to stress that these framework procedures will apply only in the case of the structural adjustment facility. There is no intention to set a precedent and extend them to other facilities and arrangements or to countries not using the structural adjustment facility...." This limited role for the policy framework paper should be honored.

The Chairman said that one had to draw lessons from experience, and that if it was positive, then perhaps the Board should consider broadening the policy framework paper process.

Mr. Finaish made the following statement:

Insofar as the content of the policy framework papers is concerned, it seems appropriate that they should incorporate the features summarized on page 10 of EBS/88/65 (3/23/88). It is true, as pointed out by the staff, that it is difficult to reconcile the desire for a fuller coverage in the policy framework

papers with the need for greater specificity and prioritization of policy action, both of which are rendered desirable by the multitude of audiences served by the papers. Indeed, the apparent trade-off between these two objectives becomes more pronounced when one considers that the financing needs of countries eligible for structural adjustment arrangements are quite often urgent. However, as observed by the staff, linking the policy framework paper to other Fund documents should permit greater selectivity in the paper itself. Moreover, since the policy framework papers are updated annually on a rolling three-year framework, it would perhaps be desirable--where breadth and specificity are precluded by time or by other constraints--to focus initially on statements of intent and indications of policy actions that are needed to deal with key and more immediate macroeconomic and structural problems. The scope of the policy framework paper could then be broadened and refined in the subsequent years. After all, or at least initially, the policy framework paper cannot be realistically expected to be everything to all potential users. This is especially true in cases such as those where the country has not been engaged in World Bank- or Fund-supported adjustment programs, where knowledge of medium-term problems and prospects is limited, or where the country's particular circumstances at the time of the negotiations makes a staggered approach more feasible. In any event, even in those cases in which fuller coverage and greater specificity are impracticable, it will be essential to ascertain, to the extent possible, the requirements--including external financing flows in excess of those considered most likely--for the attainment of adequate growth in production and consumption. In addition, to facilitate the role of the policy framework paper in stimulating internal debate on adjustment policies and to aid in generating internal consensus over these policies, the policy framework papers should highlight the social dimension of adjustment.

With respect to the role of recipient countries in the policy framework paper process--as recalled by representatives of some of these countries at the seminar--the issues addressed in the policy framework papers are technically complex as well as politically sensitive, and considerable time is often needed to develop an internal consensus to support the desired policy reforms. In addition, as noted in EBS/88/65, Supplement 1, (3/23/88), the high cost of formulating and negotiating a medium-term policy framework with the World Bank and the Fund relative to the direct benefits deriving from access to a facility of limited resources--the structural adjustment facility--may have reduced the willingness of authorities to participate actively in the policy framework paper process. One would of course hope that, among other things, the enhancement of the resources of the structural adjustment facility will ameliorate the latter problem. The fact remains that for these and other reasons, the policy framework papers have for the most part been prepared by

the staffs of the Fund and the Bank and have been subsequently discussed in semi-finished drafts with authorities, which has led many to view the papers as documents of the Fund and the Bank instead of being the authorities' own.

It would admittedly be quite difficult to envisage a uniform modality for policy framework paper preparation that, at the same time, enhanced the role of the authorities in the policy framework paper process and was suited to the special circumstances of each country. Indeed, all things considered, the present practice may be viewed as having been, in some cases, unavoidable. However, in some other cases, where a fairly well developed administrative and technical capacity is in existence, it should be possible to extend the flexibility currently applicable to second- and third-year draft policy framework papers under the revised procedures to first-year draft policy framework papers. In any event, perhaps one should not be preoccupied with modalities in this respect, but should instead focus on the objective of having the recipient countries' authorities play a leading, or, at least, an active role in the preparation of the policy framework papers and eventually reversing the perception that these papers are not the authorities' own. This is important not only from the viewpoint of recipient countries, but also from that of donors, whose representatives at the seminar indicated that "if they were to base their decisions on the policy framework paper, the document must truly reflect the policies and priorities of recipients, and they must be fully committed to it." In cases in which the policy framework paper drafts have to be prepared largely by the staffs, achievement of this objective will be aided by basing the drafts on an in-depth knowledge of the economy concerned, having them reflect a sensitivity to the special country circumstances, and negotiating them flexibly with the authorities. Other steps toward achieving a greater involvement on the part of recipient countries in the policy framework paper process, including additional and longer missions, as well as tailoring the cycle of preparation of the policy framework papers more closely to that of policy actions, should be considered also.

With respect to the involvement of donors in the policy framework process, it would seem generally desirable to limit that involvement--where such involvement is deemed necessary--to informal contacts that build on existing arrangements. These contacts, of which recipient country authorities should in all cases be informed, should focus on issues relating to the prospective levels, types, and timing of financing.

The trend toward increased and improved collaboration between the Fund and the World Bank in the policy framework paper process is welcome. It is indeed quite encouraging that several of the problems encountered in the initial phases of

this evolving process have been sorted out. One should keep in mind that, as the policy framework paper process has been in existence only for less than two years, experience with it remains rather limited, and more time is needed before definitive judgments can be made on the manner in which the process itself, as well as the collaboration between the two institutions in this area, should evolve. In the meantime, this collaboration should continue to aim at strengthening the support of the adjustment efforts of countries eligible for structural adjustment arrangements, but it should not involve cross-conditionality, be it formal or otherwise.

Mr. Rye made the following statement:

I agree generally with the conclusions of the staff paper, but wish to sound a note of warning against trying to do too much with the policy framework paper. One instrument cannot efficiently serve a multiplicity of purposes: attempts to make the policy framework paper process "all things to all men" may lead to it meaning nothing much to anyone. For this reason, one should be cautious in getting major aid agencies involved closely in the formulation of policy framework papers, since this could lead both to a blurring of the functions of the paper and to more bureaucracy and delay. Like Mr. Abdallah, I agree that it would be a contradiction if, through the vehicle of the policy framework paper, the Fund were to assume the role of chief aid coordinator.

The other two main conclusions listed by the staff, namely, that the contents of the policy framework papers should be more selective and focused more tightly, and that the authorities of recipient countries must play a key role in the preparation of the papers are entirely appropriate. On the first of these conclusions, the staff has rightly pointed out that there is a clear inconsistency between the legitimate desire for the policy framework papers to have a fuller coverage and the objective of having the papers be more specific and focused on real priorities. The main weight should be given to the latter objective, for reasons of timing and because a more tightly focused policy framework paper is likely to be a more effective paper. In most cases, the policy framework papers are prepared for countries with a history of programs with both the Fund and the World Bank, so that, generally speaking, their macroeconomic problems and structural imbalances should be well documented already. The contents of policy framework papers can thus be limited to key policy needs and to their implementation over the medium term.

Second, I endorse very strongly the view that it is essential for the authorities to be perceived as the initiators of the reforms rather than the World Bank and the Fund, a point

that was endorsed in the seminar by both donor and recipient countries. One must, of course, acknowledge the trade-off between the pressures to produce policy framework papers quickly--particularly in the many cases in which financing needs are pressing--and the lengthy time it often takes to produce a document with a complete harmony between the staff's and authorities' views. Moreover, the technical and administrative capacities available to countries eligible for a structural adjustment arrangement are often slim.

Yet, even when Fund and World Bank drafting is inescapable, it must always be the objective that the authorities not merely agree with the general thrust of the policy framework paper, but embrace the paper as their own. Lack of such willingness may well be symptomatic of an underlying skepticism about the program itself; nothing could be more fatal to the program's prospects for success. It is therefore necessary to make every effort to bring authorities into the process of policy framework paper creation as early and as fully as possible. That said, I see nothing against the staff suggestion that a full draft of the policy framework paper need not be required before starting negotiations on the program.

I endorse the staff view that the flexibility to adapt missions to the individual circumstances of each country should not be restricted by the introduction of formal rules governing collaboration between the Fund and World Bank. The proposal for fully joint Fund/Bank missions, as advocated by Mr. Dallara is an idea whose time has not yet come. I am strengthened in that view by the remarks of Mr. Cassell and Mr. de Groote on the different perceptions of the two Boards. At present, joint missions are likely to lead to delays and confusion, including on the part of recipient countries.

Mr. McCormack made the following statement:

This chair has previously expressed its strong support for enhancing the role of the policy framework paper in the inter-linked processes of stabilization, structural reform, and development. Furthermore, I believe that the policy framework paper could play a positive role not only in countries eligible for structural adjustment arrangements, but, suitably adapted, also in countries undertaking medium-term adjustment programs supported by extended Fund arrangements.

While Fund/Bank collaboration has increased as a result of the policy framework paper, there is room for further progress in this direction. In particular, there may be scope for the Bank to play a somewhat greater role in the policy framework paper process; therefore, cooperation on missions should be

extended, and greater efforts could be made to have single rather than parallel missions. Even though, in some circumstances, there may be practical obstacles to closer cooperation along the foregoing lines, in many cases, joint missions--with balanced staff representation under the same terms of reference--would contribute to improved coordination. Furthermore, over time, the policy framework paper should develop a much closer association with the Bank's adjustment lending. The various comments made by Mr. Dallara, Mr. Cassell, and Mr. de Groote with respect to the importance of providing mutual understanding between the Boards of the Bank and the Fund were very interesting, and although I do not have any firm idea as to how this objective might be encouraged, it seems that informal methods are likely to be more fruitful, at least initially.

The recipient country must play a key role in the preparation of the policy framework paper, because the authorities' commitment to the policy framework paper process is directly related to their own sense of involvement in it. The policy framework paper should truly reflect the priorities of the recipient country and contribute toward developing a domestic political consensus in support of adjustment efforts; otherwise, the program runs the risk of not being implemented fully. However, these considerations must be balanced carefully against the objective analysis of the Fund and Bank of what a particular country's economic and financial situation warrants--analysis that is not always readily acceptable to the authorities. It is presently a cliché to say so, but the policy framework paper necessarily involves a constructive dialogue in which these different considerations are given due weight.

In certain cases, because of time constraints and inadequate technical capacity, it may be difficult to expect a substantial contribution by the recipient country in the drafting of the policy framework paper. In these cases, my authorities believe that it would be wiser to take additional time in the preparation of the policy framework paper to ensure the recipients' maximum understanding and commitment. The staff's proposal that missions should proceed on the basis of notes that would serve as a common ground for negotiations--even in the first year of the policy framework papers--is interesting. This proposal appears to be appropriate insofar as it provides ample opportunity for recipients to contribute to the writing of the policy framework papers, although I would prefer to emphasize the formulation and the development of the papers rather than the actual writing. Moreover, the policy framework process is not limited to a one-year time frame. The extended time horizon provides the opportunity--which should be fully exploited--for continuing the dialogue between the recipient, the Fund, and the

Bank concerning the adaptation of the policy framework paper as both the economic situation of the recipient and the external situation evolve.

With respect to the involvement of other donors, the role of the policy framework paper in the Consultative Group process needs to be enhanced. This could be done by providing the policy framework paper to Consultative Groups and to individual donors. The policy framework paper could then be used as a broad framework by donors for ensuring that their assistance is in line with the overall policy direction of the recipient country; hence, the paper could be a valuable instrument in the Consultative Group framework for coordinating aid and ensuring the mutual compatibility of aid programs. There is some role for informal consultations with major donors in the early stages of formulating the policy framework paper; it could be useful, for example, to draw on donors' knowledge of countries or sectors. However, this informal role should clearly be limited. Moreover, it is important to ensure that bilateral donors are not involved in establishing the order of priorities for development in the recipient country; this would run directly counter to the emphasis we place on the policy framework paper being, in a very real sense, an authentic expression of the country's own objectives and policies, while at the same time embodying the technical expertise of the Fund and the Bank.

In light of the impact of budgetary constraints in industrial countries on foreign assistance, it may be hard to be optimistic about the likelihood of the policy framework papers, by themselves, catalyzing significant additional aid transfers. We should, of course, do everything possible to bring about greater resource flows. However, if the policy framework paper does succeed in becoming a central instrument in the stabilization and adjustment process, and in improving coordination in the Consultative Group framework in particular, the productivity of the limited resources available could increase substantially. Such an increase would by no means be a negligible achievement.

Mr. Zecchini made the following statement:

The policy framework paper was originally established to inject more coherence and consistency over time into the policy approach that a country had to follow in dealing with long-term external imbalances, or with deeply rooted economic weaknesses. The policy framework paper is not a development paper per se, but rather a paper concerning a country's general economic strategy for solving its economic problems, and it is supported by the Fund as well as by other creditors. The country's strategy must include a clear indication of the economic objectives it intends to pursue and a choice of the main policy instruments to

be used. Consequently, the policy framework paper is the general framework that will preside over the selection of the specific measures that will be implemented annually in the context of structural adjustment arrangements, or of World Bank lending operations. Both the policy framework paper and the structural adjustment arrangement programs have already catalyzed the additional support of a number of countries through the provision of the enhanced structural adjustment loans at concessional rates.

The current discussion of the policy framework papers' catalyzing of aid from donor countries implies that the staff believes that the adjustment programs pursued by the countries with structural adjustment arrangements require additional resources of a nondebt-creating nature to increase the probability of success. The staff should comment on whether more aid resources should be diverted by donors from other purposes and channeled through the policy framework paper structural adjustment arrangement programs, or whether the overall amount of concessional resources directed to a given country should be increased, particularly by boosting those components that are aimed at upgrading the economy in a coherent and fruitful manner via the policy framework paper and structural adjustment arrangement programs. Perhaps the staff has in mind both possibilities, which, however, point to the same conviction--namely, that for these countries' present difficulties to be resolved, permanent, larger, and more conditional resource transfers than have been provided so far are needed.

Still, in the staff paper under discussion, another aspect of the catalytic role of the policy framework papers might have been explored, namely, World Bank financing. In this connection, there is still the open question of whether the policy framework paper/structural adjustment arrangement approach has catalyzed more financial involvement on the part of the institutions under the aegis of the Bank, compared with the amounts devoted to the usual piecemeal approach of financing individual investment projects or structural adjustment loans. This aspect has not been adequately covered in the staff paper; instead, the collaboration between the Fund and the Bank is analyzed exclusively in terms of the consistency of policy advice by the two institutions. It should be stressed that Fund/Bank collaboration in the policy framework paper process cannot be limited to the design of programs, but has to include the financial support of the programs.

With respect to the substance of the policy framework papers, it is essential that the recipient country authorities indicate clearly the order of priorities among the objectives of their economic strategy. Furthermore, the role that is assigned to the main policy instruments has to be specified. Clearly, the policy framework papers cannot include a detailed description

of the envisaged economic and monetary measures, since they pertain to the annual structural adjustment arrangement or World Bank programs. Nevertheless, whenever sectoral or structural reforms are crucial for the success of the strategy, the authorities should specify their planned interventions in these areas in annexes to the policy framework papers, either at the beginning of the multiyear program, or after the first year.

It is disappointing to read again in the staff papers that the "policy framework papers have been perceived more as a document of the Bank and the Fund rather than the country's own document." One of the key aims of the policy framework paper is to induce countries, not the Fund or the Bank, to clarify what their main economic targets are and whether they have a real commitment to pursue these objectives with policies that are acceptable to the international community. The role of the staff should be limited to providing technical assistance to the authorities to ensure consistency between targets and instruments. Staff assistance also could be provided partly by convening representatives from the country at the Fund headquarters to draft the policy framework papers. The role of the staff should remain that of supporting the authorities' efforts instead of taking initiatives on the authorities' behalf. If the authorities are unwilling or unable to define their own economic strategy and to commit themselves strongly to its implementation, it is not in the best interest of the Fund, or of other donors, to rush in to provide financial resources for unclear or doubtful purposes. This does not exclude the fact that other types of aid and assistance by donors may be justified on grounds other than economic ones.

A somewhat larger involvement of donor countries at an early stage of the preparation of policy framework papers would be advisable. However, this involvement should be predicated on two assumptions. First, foreign aid serves various purposes and it is neither possible nor advisable to make the granting of all aid conditional on the implementation of policy framework papers. Second, the early involvement of donors in policy framework formulation can and should imply neither an endorsement of the long-term viability of the strategy on the part of the donors, nor a commitment to continue to financially support the strategy over a number of years. Consequently, if an early involvement of donors is deemed useful, it has to be decided on a case-by-case basis in a very informal and uncommitted manner, and by selecting a restricted number of interested donors.

The staff papers do not give us a clear picture of the extent to which Fund/Bank collaboration has improved during the previous 18 months both in the financial area and with respect to the consistency of policy advice. Therefore, I can make only a generic call for further progress in these areas, since it is

inconceivable that a catalytic role can exist for the policy framework papers if the two institutions adopt different attitudes vis-à-vis the assessment of a country's strategy. The fact that the two Bretton Woods institutions have different mandates, orientations, and procedures has not yet prevented overlaps from arising in their respective areas of concern or incoherence in their policy recommendations. We cannot delude ourselves into believing that these shortcomings in collaboration can be overcome through using merely procedural devices aimed at precisely limiting the respective areas of competence of the Fund and Bank or by establishing lines of authority. Progress can be achieved only through more extensive dialogue and mutual understanding between the staffs of the two institutions, by their firm commitment to solving inconsistencies, and by a larger involvement of the two managements in reconciling the views of their institutions in the assessment of a country's policies and strategies. To this end, Fund/Bank information flows should be improved, parallel or joint missions should be planned cooperatively, and the results of joint staff contacts with the member country's authorities should be discussed extensively. Moreover, the two managements have to share a higher degree of responsibility in resolving differences of view between the two staffs. With respect to the role of the two Executive Boards, we do not see enough justification for holding joint meetings of the two Boards, which can make procedures more cumbersome. In contrast, we could experiment with the possibility of giving a restricted committee, composed of a number of Directors from the two Boards, the task of discussing some policy framework papers and reporting to the two Boards separately. This arrangement could make the discussion in the respective Boards of the policy framework papers and the annual programs easier and shorter.

Mr. Jiang made the following statement:

The convening of the recent seminar for senior officials of selected recipient countries and representatives of the major donor agencies is welcome. The main objectives of the seminar were to introduce the policy framework paper process to aid agencies, and to discuss the experience of recipient countries and the issues related to enhancing the usefulness of the policy framework papers in coordinating the mobilization of aid resources for low-income countries.

The participation of recipient countries in the seminar was very important, since through their own experience they can play a bigger part in the evolution of the policy framework paper process than they presently do. The Board would do well to heed the views of the recipient countries, as well as those expressed by Mr. Abdallah and by Mr. Toé.

My authorities have had some reservations from the time the Board first discussed the policy framework paper process, and after one and a half year's experience with the papers, some of their concerns appear to be justified. Of course, a year and a half is too short to warrant any firm conclusions about whether or not the policy framework paper process is genuinely successful, especially since it is still evolving.

Following the increase in the number of potential users of the policy framework paper, there has been an unfortunate tendency to enlarge the paper's role to satisfy the different and sometimes conflicting needs of the multitude of users; this should be resisted as the paper is merely a general policy framework for medium-term, growth-oriented adjustment. The purpose of the policy framework paper process is to ensure that policy advice is consistent; the paper can also be used in the coordination and mobilization of aid resources. It should not be used much beyond this role.

Some distinction between the policy framework paper and the Fund's program for a particular country might well be needed. The policy framework paper should focus on the identification of the key structural problems and the fundamental obstacles to economic growth, the authorities' structural reform strategy, and the key policy issues over the medium term. Detailed time-tables and rigid policy measures should be avoided and left for the annual program, which should concentrate on macroeconomic policy measures for a fixed period. Duplications should be kept to a minimum, although that is not always easy to do.

I agree with the views expressed by the recipient countries that the policy framework paper should be their own paper and not one that is forced on them by the staff. Is it possible for us to reverse most of our present practices? That is, instead of first drafting the paper in Washington and then going to the recipient countries to discuss the draft, the staff should have discussions with the relevant authorities before they start drafting the paper. In so doing, a consensus on policy measures will be developed within government circles in a recipient country and the authorities will feel committed to it; also, the draft will truly reflect the policies and priorities of the recipients. Many donors have indicated their willingness to become involved at an earlier stage of the policy framework paper process. However, we should be very cautious in this respect, as the authorities of many recipient countries have voiced the view that any formal involvement of the donors in the negotiation of the policy framework papers might be counter-productive, although they are not against some form of informal contact. The views of the recipient countries should be respected, and these countries should also be kept fully informed of all contacts.

We need to make every effort to avoid cross-conditionality and to simplify complex and time-consuming procedures.

Mr. Ismael made the following statement:

I have no major disagreements with the staff's suggestions for the further evolution of the policy framework papers. However, while not opposing a possible expansion of the policy framework paper's coverage to include the various topics suggested, such as a longer-term perspective, I caution against having too lengthy a document, which would distract attention away from the aim of having the papers concisely reflect the priorities, policy objectives, and measures of the authorities' structural reform efforts.

There is always a need to balance the desires of those who want fuller coverage of various important aspects in the policy framework paper against the basic need to keep the paper a relatively simple framework with greater selectivity and prioritization of policies and measures than is found elsewhere.

The policy framework paper should satisfy only three simple criteria. First, it must be the authorities' paper, setting out their policy objectives and priorities in the area of structural reform. Second, while keeping the policy framework paper simple, it should, to the greatest extent possible, be readily usable by bilateral and multilateral donors and lending agencies to catalyze additional financial flows. Third, it must obviously be acceptable to the Fund and the World Bank, as they are the institutions helping to prepare the papers and as they base their lending operations on the medium-term framework set out therein. Therefore, the papers should be relatively simple, with links, if necessary, to other Fund and Bank documents that provide more detailed coverage of important policy issues.

The staff's characterization of the policy framework paper as a process rather than only a paper should be emphasized. Central to the proposal for recipient countries to play a key role in the preparation of the policy framework papers must be a process of discussion of important policy issues by a broad range of government officials. Therefore, I support the idea of having additional or longer missions, as necessary, to ensure sufficient time for the authorities to forge the required political consensus. It is not important which party actually writes the policy framework paper, as long as there is a process of internal discussion. In many instances, the staff may have to continue the present practice of preparing the draft policy framework paper, unless the authorities are clearly willing and able to undertake the task with their scarce managerial resources.

The staff should try to increase the usefulness of policy framework papers for donors without having the donors become more formally involved, which is rightly seen by many recipient countries as being mainly counterproductive. The need for more donor contact--given the new emphasis on policy-based aid--should be met mainly through an informal exchange of views on policy issues. In this respect, I support the staff's suggestion for a varied approach to increasing donor contact, depending on the recipient countries and the donors' involvement. The staff should be able to use its judgment on how best to build on existing arrangements.

In general, Bank/Fund cooperation in preparing the policy framework paper has been satisfactory, although there is always room for improvement. The objective of providing consistent advice by the two institutions has been largely met, while each institution has concentrated on its own area of expertise. The present arrangements have generally worked well, and I would be hesitant to support more formal rules on staff participation, which could introduce rigidities and delays in the preparation of the policy framework papers.

Mr. Cassell's and Mr. de Groote's reports on the World Bank Board's understanding of the policy framework paper were very interesting. To improve the Bank and the Fund's mutual understanding of the paper, it would be sufficient for the time being if the results of the Fund Board's policy framework paper discussions were made available or reported on to the Bank's Board.

Mr. Goos said that he broadly endorsed the main staff paper's conclusions. He reiterated his long-standing concern that the policy framework paper process, and Bank/Fund cooperation in general, must not undermine the Fund's ability to function properly as a monetary institution.

The staff was certainly correct that the policy framework papers should reflect the priorities of the reform efforts, as described on page 10 of EBS/88/65, Mr. Goos continued. However, he was unsure to what extent the prioritization and selectivity envisaged by the staff would be consistent with the World Bank's desire to cover sectoral and growth issues--including external financing requirements--in greater detail in the policy framework papers. Apparently such an extended approach to the policy framework papers would threaten to blur the specific and distinct roles of the two institutions. Moreover, it could not be ruled out that the Fund would be held responsible for financing the external gaps that might arise in the context of the Bank's growth exercises. As suggested by the staff, those potential problems could be alleviated by more closely linking the policy framework papers with additional specific Bank documents.

He wondered, however, what should be done if the World Bank did not favor linking policy framework papers with more of its own documents, Mr. Goos remarked. Like others, he would certainly wish to see the Bank involved in the policy framework paper process, and he therefore wondered whether the Bank's concerns could be met by the inclusion in the policy framework papers of a separate chapter that would present more detailed growth scenarios based on alternative assumptions about the requirements for, and availability of, external financing. He somewhat disagreed with Mr. Marcel's view that it would be a cause for disagreement between the two institutions and the country in question if the Fund presented them with alternative scenarios, because one would have to insist that the alternative scenarios be included in separate chapters to identify clearly that they were more development oriented. In that respect, the staff paper on Burundi contained a second growth scenario that showed considerable financing gaps. It was a cause for concern that such a scenario was presented in a staff paper and was to be given the Fund's explicit endorsement: it was important that the Fund not identify itself with growth exercises based on financing requirements as opposed to financing availability, at least not to the extent that such exercises would be inconsistent with medium-term viability.

Perhaps more important than the specific content of the policy framework papers was the need to delineate more clearly than at present the respective responsibilities of both institutions in the main policy areas, Mr. Goos considered. As it was essential to provide consistent policy advice and to prevent the Fund from being pushed into the sphere of development assistance, he felt strongly that the Board should undertake without delay an effort to redefine as clearly as possible the areas of competence and responsibilities of both institutions, and to assure--through the adoption of appropriate guidelines--that in their country work both staffs relied on each other's expertise and prerogatives. He recognized that Mr. Zecchini had less confidence in such rules or administrative measures and thought that further clarification was needed in that area. One could not accept both staffs interfering in each other's areas of competence, which would result in conflicting advice and would complicate the negotiations with authorities. The World Bank was moving into areas of Fund competence--for instance--in technical assistance, particularly in providing advice in the area of banking and financial reform. Those areas should certainly remain a Fund prerogative, and the staff should comment on how to resolve or prevent the problem of the emerging Bank intrusion into the Fund's domain.

Precise delineation of the two institutions' responsibilities should also go a long way toward easing the tensions that arose periodically in the process of Fund/Bank collaboration, Mr. Goos pointed out. Those tensions could be reduced further if the Bank staff, like the Fund staff, based its bilateral contacts with authorities on briefing papers that were cleared in advance with both managements, or at least with the respective managements. Such arrangements would render superfluous the

introduction of elaborate rules for the composition and preparation of missions, which would involve an uncertain balance of costs and benefits for all the parties involved.

Like other Directors, he was skeptical about proposals that common or joint Board meetings be introduced, Mr. Goos remarked. By having a delineation of responsibilities like the one he had proposed, the need for such joint meetings would be, at least, much reduced. Moreover, if the Board moved into the area of institutionalizing the cooperation between both institutions, it might be quite difficult for it to secure or to maintain its independence.

He had considerable doubts about extending the policy framework paper process to middle-income countries, Mr. Goos noted. The policy framework paper process was designed for countries with low per capita incomes, very limited resource bases, and balance of payments problems relating predominately to deep-seated structural problems that could not be overcome in the short period of standard Fund arrangements. None of those criteria--at least not in their totality--seemed to be typical of middle-income countries, whose balance of payments problems tended to be related more closely to deficiencies in the macroeconomic framework and the frequent failure to sustain the adjustment effort over sufficiently long periods. Against that background, he feared that the medium-term perspective of policy framework papers could detract from the overriding need for forceful macroeconomic adjustment and could thereby give rise to the risk of an inappropriate degree of gradualism in the adjustment strategy.

The various issues raised were very difficult and required careful consideration before the policy framework paper process could be extended to other structural adjustment arrangements, Mr. Goos concluded. He looked forward to hearing the more specific suggestions that Mr. Cassell intended to provide.

The Executive Directors agreed to resume their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/88/68 (5/2/88) and EBM/88/69 (5/4/88).

2. SUDAN - 1988 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted

April 29, 1977, as amended, the Executive Board agrees to extend the period for completing the 1988 Article IV consultation with Sudan to not later than May 27, 1988. (EBD/88/123, 4/29/88)

Decision No. 8863-(88/69), adopted
May 2, 1988

3. SUDAN - OVERDUE FINANCIAL OBLIGATIONS - POSTPONEMENT

Paragraph 4 of Decision No. 8728-(87/155), adopted November 16, 1987, is amended to substitute the words "on May 27, 1988" for "within six months of the date of this decision or at the time of the 1988 Article IV consultation, whichever is earlier."

Decision No. 8864-(88/69), adopted
May 2, 1988

4. EL SALVADOR - TECHNICAL ASSISTANCE

In response to a request from the Salvadoran authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/88/119 (4/28/88).

Adopted May 3, 1988

5. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 87/138 through 87/141 are approved. (EBD/88/117, 4/27/88)

Adopted May 3, 1988

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAP/88/107 (4/29/88) is approved.

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAP/88/107 (4/29/88) is approved.

APPROVED: December 7, 1988

JOSEPH W. LANG, JR.
Acting Secretary

