GENERAL RECOMMENDATIONS

SOCIAL IMPACT

EXTERNAL VIABILITY

OWNERSHIP

GENERAL RECOMMENDATIONS

Without prejudice to the generality of the foregoing analysis, and to various suggestions which we make by necessary implication, we propose the following specific recommendations:

SOCIAL IMPACT

First, in our view the Fund should not invest in building up expertise in poverty analysis. Rather, we recommend that at the stage of program design the Fund formally asks the Bank to identify ex-ante which groups, among the poor, are likely to lose from the proposed reforms. The Bank would then provide the Fund with projected time paths of the real incomes of the main groups of the poor and also with projected outputs of social services. The output projections for social services would take into account the relative price changes which we have identified as so substantial that they can radically change the conclusion from social indicators. The projected time paths would be incorporated in program documents, along with the traditional fiscal and monetary monitoring variables. Whether a program would be considered in need of revision would be decided in part on the basis of a comparison of outcomes with these projections. Clearly, the time lag for income data is much longer than for financial targets. However, its use in assessing whether the outcome of a program was consistent with the initial projections would be salutary since major deviations would require explanation.

Second, in program design trade-offs between the short and the long run should be explicitly analyzed. This analysis would address sequencing issues, the efficiency costs of revenue measures, the need for front-loading of slowly-maturing structural reforms and the appropriateness of cash budgets.

Third, in the area of fiscal policy, where the macroeconomic concerns of the Fund and the microeconomic concerns of the Bank currently overlap, collaboration between the Bank and the Fund should be increased. Specifically, boundaries need to be more clearly delineated, and where overlaps are accepted, a more formalized requirement for joint analysis and decision should be negotiated so that country-level staff are clear about their respective powers and duties.

Finally, in already-stabilized economies the Fund should shift from ex-ante negotiation of short-term targets and policies to an ex-poste evaluation over a longer period. This would help reforming governments in building reputations and would enable the Fund to play a useful role in potential ESAF countries which now reject the instrument. In post-crisis economies the Fund would focus on encouraging and managing increased external inflows, public and private. Except in the transition economies, ESAF funds would taper in with adjustment rather than taper out. Conversely, the Fund would be more circumspect in providing support in stabilization contexts where the commitment of the government is in serious doubt.

EXTERNAL VIABILITY

First, we recommend that the operation of ESAF as an inadvertent tax on exports be mitigated by allowing ESAF funds to accrue as budget support, as already happens in the case of Franc Zone ESAF countries.

Second, as indicators of external viability of a nation, one should rely more on Debt Service/GDP and Debt/GDP ratios since the former ratios are less affected arbitrarily by the degree of openness of a nation than the latter ratios. In order to supplement the static nature of the above ratios, one should also refer to the Real External Debt Burden (REDB) as well as to the Debt Deepening Index (DDI). Net Present Value (NVP) of debt is indeed a dynamic concept, but it should be matched not only with the current GDP, which is a static concept, but with the net present value of the national income of a nation or the net present value of the savings-investment balance.

As discussed above, debt service ratio to export ratios and debt/export ratios are less reliable indicators than debt service ratio to GDP and debt/export ratio, because those ratios to export are overly sensitive to the openness of the economy.

OWNERSHIP AND GOVERNANCE ISSUES

Responsibilities of the Country

The Fund often gets cast in the role of the villain when in fact, the problem lies with the country itself. Corrupt and autocratic regimes, some of them propped up by vested interests abroad, are often the first to plead ownership and to bemoan the lack of it when they feel the pressure of donors and the multilateral system to rectify things. The role of the multilateral system (and also of bilateral donors) in such situations is to reinforce the leverage of national democratic forces by requiring a restoration of the integrity of the system of public resource mobilization and expenditure and its oversight institutions (Auditors and Accountant-Generals' Offices) as a minimum condition of assistance. The Fund's policy in this regard is, in our view, entirely appropriate. The real solutions must begin at the country level. Here, the government's space for maneuver will obviously depend on the credibility it enjoys in the eyes of the governed, especially organized constituencies, and this credibility in turn depends, among other things, on the openness and accountability of political and fiscal institutions.

Defining a Vision and Setting the Agenda

National ownership requires, first and foremost, that the country itself define its medium to long-term vision along with a supporting policy agenda and that it mobilize a sufficient body of national consensus behind it, before it begins negotiations with the Fund and other external agencies. Where the capacity does not exist in the country or with its nationals abroad to elaborate a national program, it is for the country to 'acquire' it by whatever means are available - free-standing technical assistance, hired consultancies, etc. Our discussions in the various countries show that Fund technical assistance provided independently or collaboratively with the UNDP and/ or bilaterals can be particularly useful in these situations.

The Fund's technical assistance program in Vietnam is an outstanding example that needs to be studied and replicated, in this regard. A number of country experiences (Ghana, Côte d'Ivoire) also suggest the secondment of Fund-based staff of national origin - nationals of a country working with the Fund - can be similarly useful for this and other purposes.

Broadening and Sustaining the National Consensus

At the country level, there are a number of ways in which government can deepen ownership and build consensus. One of these is the formation of economic management teams (EMTs) with a technocratic and political composition. The experience of a number of countries suggests that the formation of such EMTs drawn from the technical and economic ministries, along with political leaders, especially the Prime Minister or head of government, and some senior members of Cabinet, can be an effective way of building consensus and managing programs. Such management teams will usually take charge of the overall policy reform package, and the coordination of the roles of different ministries and government agencies and departments in the implementation of the program. This is particularly important since, in practice, it is difficult for the Ministry of Finance by itself to achieve this coordination and monitoring of the different roles of these other ministries and agencies. The one caveat, however, is that these management teams can be counter-productive and may, in fact, deepen the rivalry between the Minister of Finance and his colleagues unless proper liaison is established between the management team and the Cabinet as a whole. The tendency is for Cabinet members to feel resentful if policy-making suddenly shifts to a management team that includes just a few of their number, and if major policy decisions should be taken by this group without reference to them. It is important, therefore, that there should be regular communication between the economic management team and the full Cabinet through regular briefings to the Cabinet by the Minister of Finance or preferably, by the Prime Minister or whoever chairs the management team. In some countries, these management teams are headed by the President himself, and this is often even more effective in getting all ministers to cooperate in the reform effort.

Moreover, in the consensus-building process, it is important that opposing views within government are allowed to be expressed freely and openly, and where they appear to be predominant, they should not be browbeaten into silence. On the contrary, such predominant opposing views and positions should be discussed fully, and if need be, put to the test even if at the cost of further economic deterioration, as this is often the only way to create space for change. In Ghana and Uganda, for instance, alternative policies to Fund-supported programs were tried before these reform programs began. For purposes of wider national consensus-building, national conferences have also proved, in many countries, to be an effective way of building-consensus, especially where they have a high degree of inclusivity and openness. The role of political leadership, at the level of the presidency itself, is often decisive in these matters.

Initiatives by the Fund

Side by side with what we recommend must be done at the country level, we also recommend that steps be taken by the Fund to make the negotiation and conditionality regime more ownership-friendly, so to speak.

i) Pre-Negotiation Contacts

We recommend that before formal negotiations with the country begin, the Fund, at a sufficiently senior management level, and with the active participation of the country's Executive Director, engage in intensive and informal political dialogue with the country's political leadership (and other key constituencies) in a bid to understand the country's political constraints and possibilities. In appropriate circumstances, the Fund may consider, for this purpose, the use of emissaries or third parties who may enjoy a special relationship of trust and friendship with the country's political leadership. The idea is for management in this way to form the necessary **political** judgement that should then inform both the choice of the mission leader and the formulation of the mission's mandate. We are aware that the Fund does some of this already. Visits by Fund management to the countries are everywhere appreciated. Our proposal is to make these informal contacts a systematic and regular feature of Fund/ country relations.

ii) The Timing of Missions

The timing and duration of country missions came up frequently in our interviews with government officials. Although both of these matters are always discussed and agreed upon with government representatives (Ministers of Finance usually), there are concerns that the timing and duration of missions do not always allow sufficient time for government to fully consult and build consensus, especially during the negotiation process itself, as compromises are made. This was a major complaint in Vietnam, for instance. In a slightly different variant of this problem, governments are sometimes ready to conclude negotiations but are unable to do so because missions are not mandated to reach agreement; indeed some missions set out with the explicit anticipation that a program would be concluded by a follow-up mission.

A related aspect of the timing problem is also that governments' preparation for negotiations is often compromised by undue concentration of government staff time on collating statistical and other information required by missions in the framework of Article IV consultations.

Now, quite obviously, the timing and duration of staff missions cannot be made exclusively dependent on the country's or government's needs; they also depend on the Fund's administrative and staff constraints. Our proposal is for a proper balance to be struck between these competing considerations that allows the country time to prepare the ground adequately for the appropriate policy choices to be made. In particular, new governments, especially those made up of people with little or no experience in government, need even more time to consolidate power and build consensus. While a rush by the Fund to the support of a new government may be entirely warranted and necessary in order to provide early support and thus to strengthen the position of key reformers, it must be coordinated carefully with other donor missions so as not to put the consensus-building process under undue strain and leave the reformers too far ahead of the rest of the Cabinet and government. Programs agreed under these circumstances often make swift progress but leave a trail of recrimination in their wake that may prove costly to the reformers themselves (Malawi) whereas those that are agreed in less hurried circumstances usually prevail (Uganda, Ghana).

iii) The Element of Choice

The most common complaints from which we heard but few dissenting voices concerned the Fund's perceived 'inflexibility' in negotiation, and its 'insensitivity' to domestic political constraints. Many Finance Ministers and senior officials with long experience with Fund negotiations, complained about what they perceived as 'imposition', and the absence of choice in the way Fund programs are negotiated. Understandably, the complaints were loudest among, but by no means limited to, countries experiencing difficulties in negotiations with the Fund (Ethiopia, Bangladesh, and to some extent, Vietnam).

In our view, this is the greatest source of tension in Fund/ country relations, and the main reason why the Fund is often cast in such a villainous role.

Now, to be sure, and as we have already noted, the Fund is often a victim of circumstances of the country's own creation. Many ESAF countries come to the Fund when they are in a deep macroeconomic crisis requiring dire measures to bring much needed stabilization. In such cases, the country's objective situation itself imposes limits on policy options for corrective action.

But we believe that there is more than a grain of truth in these widespread complaints. We heard complaints about Fund 'inflexibility', even from Bank sources. The persistent concerns about the loss of national ownership come from the feeling that governments are left no choices in negotiations, that the staff come with fixed positions and preferences for instruments that are considered 'safe' and 'reliable', that alternatives are often dismissed much too summarily, and without objective appraisal; petroleum tax was cited as a frequently invoked 'safe' handle.

We do not, of course, state these views here to say that they reflect every negotiating experience; nor do we intend to suggest that the complaints are necessarily valid in each case. The point we wish to make is that they reflect a fairly widespread feeling that the negotiation process tends to be one-sided, and produces agreement mostly through a convergence around staff positions. Agreements that are concluded in these circumstances and the conditionalities that regulate them can obviously not be said to be compatible with true ownership.

In order to put the matter in the right perspective, it is necessary to clarify the nature of the concern we are here addressing. There is nothing inherently contradictory between conditionality and ownership, and a negotiated program that is 'owned' does not cease to be so merely because it is tied to conditionalities; the complaints are about conditionalities tying financial support to the implementation of a program that is **not** owned, one which a government in distress and with no alternative source of funding, feels compelled to accept.

We accordingly recommend that some flexibility be built into the mandate for negotiations in the current essentially *ex-ante* negotiation and conditionality regime. One of the ways, but by no means the only one, in which this could be done is to formulate alternative program paths through the negotiation process, leaving it to the country to decide, with the advice of the staff, what best (or better) suits its particular circumstances. What we have in mind is not a glorified lottery in which the country makes its choice, more or less in the blind, leaving the Fund to bear the risk of default; nor is this the product of sheer brilliant intuition. On the contrary, we believe that the element of choice will not only help relieve the perception of one-sidedness and inflexibility in the existing negotiation regime, it may also help to achieve an agreement in many of the cases where negotiations break down over narrow areas of divergence. It may also help address the large element of interruptions which the Internal Review reported "were strongly affected by serious slippages in past policies that either weakened the government's credibility, or produced protracted disagreements between the staff and the government on remedial measures".

In order to provide this element of choice without jeopardizing basic discipline, alternative programs must each satisfy a minimum condition of viability - they must each be capable of bringing about sustainable growth.

We recognize that it cannot be a choice between a "strong" and "weak" program in the ordinary sense, for typically, a "weak" program—one with a weaker than desired fiscal adjustment, will have a larger financing gap and therefore, by the same token, require more external, including Fund, resources. However, a country may in practice decide that it needs time to build consensus and strengthen support for reform, and would therefore prefer to undertake the needed fiscal adjustments in say the second or third year, instead of the first year of an ESAF program. In such situations, what the Fund typically does in the existing regime is to backload its funding (along with other external funding) and in this way to complicate the implementation of the program in the first year, or perhaps even condemn it to failure. What our proposal would mean is that in these circumstances the Fund would grant the country its choice and be willing to frontload its funding to enable the government to demonstrate success and thereby strengthen its credibility. Fund assistance could, in such situations, be made contingent on strong signals by the country in the form of some up-front major structural reform along with measures designed to prepare the ground for credible revenue and expenditure measures in the succeeding years.

Such a posture will enable the Fund to demonstrate its flexibility as well as its support for the reformers, and at the same time will enable the country to exercise some choice in determining the configuration of the program. The high level political contacts that we recommend elsewhere, should also enable the Fund to form a judgement as to the depth of the country's commitment to sustained reform.

Secondly, we recommend that the Fund develop a more systematic mechanism for supporting home-grown programs *ex-poste*. The objective of such a mechanism would not be to condemn countries with a poor track record but with new governments committed to reform (Ghana 1983, Uganda 1987, Malawi 1994), to wait till they have established a track record and to bear the cost of adjustment on their own while they are at it, before they can receive Fund support. For precisely these reasons, home-grown programs would be entirely unsuitable for countries needing immediate balance of payments assistance.

A systematic mechanism for supporting home-grown programs *ex-poste* would enable the Fund to engage itself in countries that do not have critical balance of payments crises but need Fund certification for access to private capital markets or in low-income countries with some balance of payments need but which decide that for reasons of political principle, they would much rather do their own programs.

A system or mechanism for providing *ex-poste* support for home-grown programs should aim to provide ample technical assistance for the development of such programs. It should obviously also have entry and exit points although the purpose of active Fund technical asistance support in such cases would be precisely to minimize the risk of program default (and therefore of exit in the first place). The entry point could usefully be made to be triggered by some signal by the government in the form of a major reform initiative.

iv) The Fund's Image: Explaining the Fund's Role and Method

We have already observed that the Fund's image in most of the countries we visited was rather negative.

In our view, this is a matter that needs to be addressed in its own right. It has implications for the Fund's effectiveness as an institution on whom the entire donor community and private sector agents have thrust a leading role in macroeconomic policy management. It also has implications for the credibility and sustainability of the government's role in the reform process. Already, some countries, notably those that have a history of protracted revolutionary struggle (Ethiopia and Eritrea) and therfore have a greater capacity for political mobilization and a more resolute and militant vision of the national development path, have begun to balk at Fund-supported arrangements, preferring to pursue macroeconomic and structural reforms on their own.

We believe it is important that ways be found to both humanize and de-mystify the Fund's image so as to relieve the political hazard that countries sometimes perceive to be associated with dealing with the Fund. In this regard, the Fund might consider taking a leaf, not so much from the Bank's rather quixotic recent decision to send staff members to the villages to give them a taste of poverty, but perhaps from the Bank's country strategy and implementation review meetings in countries where heads of sector ministries and their staff and key political leaders meet with Bank staff to review program performance and discuss future strategies. In our view, the PFP preparation process provides a perfectly suitable forum for Fund staff interaction with a broad cross-section of political leaders and technical staff instead of the bilateral sector meetings that the PFP process usually entails. We also endorse wholeheartedly the recommendations made in a 1993 internal Fund document for Bangladesh; it will be recalled that it proposed, among other things, that the resident representative "play a leading role through the development of a wide range of contacts and by direct participation in the national debate". It also recommended the publication of Occasional Papers on Bangladesh to focus discussion in high-level seminars, as well as Fund participation in meetings with opponents of reform, both in and outside the government.

An improvement in the image of the Fund will not, in our view, only be good for the Fund from the point of view of its effectiveness as an institution, it would also help country ownership. When the image of the Fund gets so negative that countries begin to feel a palpable political risk in associating with it, they deny themselves the technical support and policy advice (which they acknowledge the Fund does have) and which they can avail themselves of, in formulating and developing their own programs. Thus a negative Fund image does not, in the end, promote country ownership.

v) The Role of the Resident Representative

We acknowledge that we did not visit a large enough sampling of resident missions, and that therefore the assessment we make in this regard cannot be too categorical. In what follows, we make judgements that are, to some extent, intuitive but which we believe are reliable on account of the frankness and confidentiality which characterized our interaction and discussions with resident representatives and government officials, as well as donor representatives who have had regular contacts with resident missions.

First, the resident missions tend to be very small missions, with a solitary resident representative working with a skeletal administrative staff. In some cases, we sensed that beneath the veneer of loyalty to the institution, the resident representatives felt some frustration at their isolation from headquarters. Some of them also expressed concern about the career advancement possibilities following their postings.

Our general impression is that the role of the resident representative is perhaps not being maximized enough although it holds great potential not only for improving the Fund's image in the countries but also for facilitating the conduct of its relations and negotiations with them.

In our view, the role of the resident representative is critical as a point of continuing contact with a country and government and therefore, for program implementation. For this reason, we strongly recommend that there should be resident missions in all ESAF countries. The matter is important enough to warrant that resources be found to make it possible to have these missions established.

The full-fledged Fund mission which we recommend for all ESAF countries should preferably be headed by a high-flying and relatively senior staff and an assurance given to them of their re-integration into headquarters once their mission abroad is over. We found the absence of this assurance to be a source of worry and fretting with some resident representatives.

In the framework of such a strengthened mission, greater authority should devolve to resident representatives, especially in areas or matters that depend crucially on knowledge of concrete country circumstances, such as for instance, the fulfillment of tranche conditions or the impact of unexpected shocks or developments that require minor variations of program targets.

In the light of the foregoing recommendations, we believe that more country visits and intensified program monitoring by Washington-based staff would be largely superfluous. Not only will they be a curious affirmation of the Fund's professed belief in the primacy of country ownership, they are unlikely to prove as effective a way of aiding successful implementation of country programs as competently manned and strengthened resident missions.

vi) The Fund's Cooperation with the Bank

In the area of Fund/Bank cooperation, while a great deal has been done to better define and clarify the areas of the core competencies of the two institutions, and to provide guidelines for the management of areas of unavoidable overlap, a bit of confusion still reigns. Behind the facade of the close Fund/Bank cooperation which Fund missions cite in staff reports, there is much frustration on both sides.

Among the Fund staff, there is some impatience with what is perceived as indecision on the part of the Bank, on key issues within the Bank's core competence (especially expenditure analysis) and undue tardiness in delivering inputs for joint documents and programs.

On the Bank's side, the sources of frustration are many. Firstly, while the particular weaknesses complained of by Fund staff are acknowledged, there is a general feeling (and some resentment) that the Bank plays second fiddle to the Fund, and that once an ESAF has been negotiated, the Fund expects a SAC to follow. Secondly, there are complaints that Fund staff are often cast in an inflexible mold by their briefing papaers and mandates, and are much too quick to plead jurisdiction and turf when differences arise. Needless to say, Fund staff, for their part, feel (and this, not without some justification) that Bank mandates and negotiating styles are no less inflexible.

The real sources of friction include the sharing of draft reports and position papers. Bank staff complain that while they share their documents readily with their counterparts in the Fund, there is too much hierarchy and rigidity in the Fund's attitude in this regard. We heard complaints about the coordination of policy positions and the sharing of PFP drafts on Vietnam and Burkina-

Faso.[31] There is also a widespread feeling on the part of the Bank staff, that there is continuing tension between the objectives of short-term stabilization and sustainable growth, and that the Fund "needs to rethink growth". Fund staff, on the other hand, feel that the Bank needs to better appreciate the role of macroeconomic stabilization in fostering and sustaining growth.

Financing plans of programs constitute another source of friction; Fund staff often complain, and there are many references in staff reports on this, that the Bank does not always deliver or disburse programmed resources on time, while Bank staff complain the Fund controls its money flow and takes the Bank's for granted.

The tensions appear to center mostly on structural reforms, especially financial sector reforms where the specific issues cover the areas of micro-finance, the formulation of policy instruments that are compatible with private sector development, and the promotion of small and medium-scale enterprises.

Our sense is that in spite of the progress that has been made in the last few years in forging harmony in Fund/Bank relations, too much still depends on personalities. We are unable, on the basis of the case studies alone, to formulate any concrete remedial measures. We wish to stress, however, that the situation requires urgent resolution, especially with the new strains that are bound to be caused by the asymmetry in the levels of decision-making authority of resident missions and country staff of the two institutions, following the Bank's recent decentralization program, to say nothing of the problem of policy cohesion and coordination posed by this program within the Bank itself. There is a pressing need therefore to improve Bank/Fund cooperation further, through the development of more effective and operationally reliable instruments of cooperation. Policy choice and ownership are not helped when the country is pulled in different directions by the two institutions and perhaps by donors.

Conclusion

We have put a great deal of emphasis on country leadership as a condition of national ownership. We talk of the country developing its own medium to long-term vision, of the need for the country to be allowed time to build consensus, of the timing and duration of missions being arranged to enable consensus-building, and of allowing and assisting the country to develop its own program if it so desires. We do not intend, by these proposals, an endorsement of selectivity in the sense of a withdrawal by the Fund from engagement with countries until perfect conditions for ownership have been established.

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[31] Interviews, Hong Kong and Vietnam, September/October 1997.

Accordingly, while we put a premium on country preparation and leadership in setting the policy agenda and pace of reform, we recommend also that the Fund engage the country at the highest political level and at the earliest opportunity to both listen and offer advice. We further propose the stationing of resident representatives in all ESAF countries and the strengthening of the Fund's technical assistance work. We believe that these measures can go a long way in supporting what countries must do at their level to promote national ownership. We therefore urge that every effort be made to provide the necessary budgetary resources to enable the Fund to strengthen its work in the countries, in these two important areas.