INTERNATIONAL MONETARY FUND and WORLD BANK

Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality—Progress Report

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and by OPCS and PREM (World Bank)
In consultation with other Departments

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<tr>
<td>AML</td>
<td>Anti-Money Laundering</td>
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<td>CAS</td>
<td>Country Assistance Strategy</td>
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<td>CAW</td>
<td>Country Analytical Website</td>
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<td>CFAA</td>
<td>Country Financial and Accountability Assessment</td>
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<td>CFT</td>
<td>Combating the Financing of Terrorism</td>
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<td>CPAR</td>
<td>Country Procurement Assessment Review</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DC</td>
<td>Development Committee</td>
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<td>EC</td>
<td>European Commission</td>
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<td>FAD</td>
<td>Fiscal Affairs Department (IMF)</td>
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<td>FATF</td>
<td>Financial Action Task Force</td>
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<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
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<td>FSB</td>
<td>Fiscal Strategy Brief</td>
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<td>FSRL</td>
<td>Financial Sector Liaison Committee</td>
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<td>GDDS</td>
<td>General Data Dissemination System</td>
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<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<td>IFI</td>
<td>International Financial Institution</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IMFC</td>
<td>International Monetary and Financial Committee</td>
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<td>JIC</td>
<td>Joint Implementation Committee</td>
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<td>JSA</td>
<td>Joint Staff Assessment</td>
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<td>LIC</td>
<td>Low Income Countries</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MIC</td>
<td>Middle Income Countries</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OPCS</td>
<td>Operational Policy and Country Services (World Bank)</td>
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<td>PDR</td>
<td>Policy Development and Review Department (IMF)</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PEM</td>
<td>Public Expenditure Management</td>
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<td>Public Expenditure Review</td>
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<td>PIN</td>
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<td>PREM</td>
<td>Poverty Reduction and Economic Management (World Bank)</td>
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<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<td>PRSC</td>
<td>Poverty Reduction Support Credit</td>
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<td>PSI</td>
<td>Poverty and Social Impact Analysis</td>
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<td>RAP</td>
<td>Regional Technical Assistance Plan</td>
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<td>ROSC</td>
<td>Reports on the Observance of Standards and Codes</td>
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Executive Summary

Close collaboration between the Fund and the World Bank is indispensable for providing effective support to member countries, and is a pillar for global efforts on development through the promotion of financial stability, sustainable growth and poverty reduction. Recognizing this, in September 2000, the Managing Director of the Fund and the President of the World Bank set out a shared vision for closer cooperation, emphasizing the importance of national ownership of reform programs, the need for a coherent approach to supporting reform priorities based on an efficient division of labor, and the objective of focusing conditionality on measures critical to program success.

In 2001, a framework operationalizing this vision was set out in a joint paper, *Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality*, together with a corresponding staff guidance note. A preliminary review of collaboration under this new framework was discussed by the Boards of the Bank and the Fund in September 2002 based on a survey of Bank country directors and Fund mission chiefs. At the time it was noted that the survey provided an initial snapshot of the state of Bank-Fund collaboration and it was agreed to carry out an update of it in late 2003, and to solicit the view of national authorities regarding Bank-Fund collaboration. This paper reports on the findings of the two surveys, describes the overall framework within which the two institutions collaborate, reviews collaboration on specific thematic issues, and proposes some measures to enhance collaboration.

While at first sight, the survey results point to a broadly satisfactory assessment of Bank-Fund collaboration (indeed, along several dimensions the results are stronger than last year’s survey), it is also clear that the enhanced framework for Bank-Fund collaboration cannot fully address all the implementation issues that arise at a country level from time to time. In particular, the survey results underscore areas for further improvement—including a need for more consistent implementation of the agreed divisions of labor for better agreement on the coverage and consistency of conditionality, and for better coordination in interacting with the authorities. The survey of the authorities indicates that country ownership and national leadership of development and economic policies could be enhanced by a better alignment of program design and conditionality to the country’s own reform priorities, and through more shared work at the country level, including joint missions.

Reflecting these and other findings, this paper concludes that it would be useful to strengthen the Joint Implementation Committee (JIC). The revamped JIC would address cross-cutting issues on Bank-Fund collaboration, monitor progress on implementation of the agreed framework of collaboration on country programs and conditionality and, when needed, provide an additional instrument to help country teams in the two institutions to reach agreement on priorities so as to ensure coherence of policy advice and of program design. The JIC would cover issues that arise both in the low-income context as well as in middle-income countries. The paper also explores ways in which close collaboration on joint analytical work on thematic issues that feed into program design can contribute to national ownership of adjustment programs and to reform measures better aligned with the priorities and constraints faced by member countries. These include improved public expenditure and financial management (PEFM), and poverty and
social impact analysis (PSIA) where efforts are underway to draw on each institution’s areas of expertise. Finally, to ensure that the Board of the each institution remains informed of the engagement and current assessment of the other institution in specific reform areas, the paper proposes staff guidance on best practices for the preparation of the annexes and codifying the use of assessment letters for the Fund relations note in cases where the PIN or Chairman’s Statement is not considered to be sufficiently up to date.
I. INTRODUCTION

1. Close collaboration between the Fund and the World Bank is a pillar for global efforts on development through the promotion of financial stability, sustainable growth and poverty reduction and is indispensable for providing effective support to member countries. Recognizing this, in September 2000, the Managing Director of the Fund and the President of the World Bank set out a shared vision for closer cooperation. This vision, building on earlier agreements, emphasizes the importance of national ownership of reform programs, the need for a coherent approach to supporting reform priorities based on an efficient division of labor, and the objective of focusing conditionality on measures critical to program success. In operational terms, this vision is now embodied in a strong framework for collaboration at the country level, centered on the HIPC and PRSP initiatives for low-income countries, and buttressed by an intensified dialogue and cooperation between the Bretton Woods Institutions on thematic policy issues and on the global agenda to support development.

2. Reflecting convergent orientations in the Fund on the streamlining of its conditionality and in the Bank on strategic selectivity, the Boards of the Bank and the Fund welcomed the proposals for a stronger operational framework for collaboration set out in an August 2001 joint paper, Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality. This was followed by a staff guidance note, which provides a systematic structure for staff cooperation that stresses division of labor based on the concept of a lead agency, discussions and coordination at early stages of formulating policy advice and conditionality (upstream engagement), and effective information sharing among staff and with the Boards of the two institutions.

3. A progress report on collaboration on country programs and conditionality was discussed by the Boards of the Bank and the Fund in September 2002. The report was based mainly on a survey of Fund mission chiefs and Bank country directors. At that time both Boards reaffirmed the need to provide countries with coherent support, based on the elements of the agreed

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2 Operationalizing Bank-Fund Collaboration in Country Programs and Conditionality—Staff Guidance Note (April 24, 2002).

framework, and requested to be kept abreast of Bank-Fund collaboration at the country level through the enhanced IMF-World Bank Relations Annex prepared by Bank staff, and the Fund Relations Note prepared by Fund staff. The Boards also requested that the next progress report be based on a similar survey, preferably expanded to include the views of country authorities.

4. The present report reviews experience with Bank-Fund collaboration on country programs and conditionality, in particular since the introduction of the strengthened framework some 18 months ago. While the primary focus of the paper is this enhanced framework, two points bear emphasizing. First, outside of country programs and conditionality, the two institutions also cooperate on a wide variety of other areas and issues. Second, achieving results and providing effective support to members requires going beyond any formal framework for collaboration, and working closely together at all levels and stages, including resident representatives, country teams, area and country departments, and functional departments and networks, as well as senior management and the Executive Boards.

5. The structure of this paper is as follows. Section II provides a brief overview of the framework for Bank-Fund collaboration on country programs and conditionality. Responding to the Directors’ requests, Section III reports the results of a more comprehensive survey of the staffs’ and of national authorities’ experience with Bank-Fund collaboration on program design and conditionality since the adoption of the new framework, together with some observations drawn from case studies (Bulgaria and Burkina Faso) and a quantitative review of Bank and Fund conditionality in low-income countries. While these findings point in general to broad satisfaction with the collaborative process, some results also identify areas for further improvement. Section IV provides a summary assessment on collaboration based on these findings and identifies areas for further improvement, and Section V concludes with issues for discussion.

II. Framework for Bank-Fund Collaboration

6. Bank and Fund managements have agreed on, and have repeatedly reaffirmed, the complementary roles and responsibilities of each institution and the importance of close collaboration at the country and institutional levels to provide coherent policy advice and support to national reform priorities. Further, and reflecting a broad international consensus on

4 Box 1, below, describes some of the other areas in which the two institutions collaborate.

5 A survey on Bank-Fund collaboration on public expenditure issues was discussed by the Boards of the two institutions in early 2003 (SM/03/73 and SecM2003-0077). As noted below, some of the results of that survey are echoed in the survey reported in this paper.

the centrality for sustainable growth and successful poverty reduction of a comprehensive approach encompassing macro, structural, and social policies, Bank and Fund staff have intensified their dialogue on thematic policy issues of relevance to the Bretton Woods Institutions, as well as on the supportive global agenda for development.

A. Framework for Collaboration at the Country Level

7. Bank-Fund collaboration in supporting country programs is crucial to obtaining sustainable development results in the field. For middle-income countries, solutions and processes implemented have generally followed the framework for Bank-Fund collaboration laid out in the 2001 joint paper and associated staff guidance note with tailored approaches reflecting the diversity of these countries’ assistance needs, and the sometimes different degrees and timing of engagement of the two institutions.

8. Bank-Fund coordination in low-income members takes place within an overarching framework centered around the Poverty Reduction Strategy Papers (PRSP) process and, in many cases, in the context of the enhanced Heavily Indebted Poor Countries (HIPC) initiative. In this perspective, much progress has been achieved in low-income countries, building on the Poverty Reduction Strategy Papers (the PRSP approach), as a country-owned platform for more effective collaboration, and on the successful collaboration in implementing the enhanced HIPC initiative. Country-owned PRSPs form the basis for lending and technical assistance, and the joint staff assessments (JSAs) of low-income members’ PRSPs, and PRSP progress reports provide a means for the Bank and Fund country teams to ensure that the full range of needed policy advice is made available to countries. Reports for the Boards on progress on implementation continue to be prepared jointly by the staffs (the most recent of which was in September 2003). The two institutions are currently working on a joint framework for debt sustainability for low-income countries and on a statistical update on the enhanced HIPC initiative (planned for Spring 2004).7

9. The Fund has launched a reflection on its role in low-income member countries (SM/03/257 and SM/03/288). The Executive Board of the Fund reaffirmed that the Fund should remain engaged in assisting low-income members over the long term, but asked that there be further consideration of the modes of engagement to ensure that the Fund was being as effective as possible in assisting low-income members in their efforts to meet the MDGs. While the internal reflection of the Fund is continuing, the Board emphasized that the role of the Fund in helping low-income members should be primarily directed to establishing macroeconomic frameworks that can support high sustained growth and poverty reduction; identifying and helping countries manage sources of macroeconomic risks and vulnerabilities; and strengthening institutions and policies that underpin sound macroeconomic management—including the management of public financial resources as well as exchange, monetary, and financial systems. The Board also noted that the Fund has neither the mandate nor the capacity to provide long-term

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7 As the Boards have set end 2004 as the sunset date for the HIPC initiative, Bank and Fund staff are also evaluating options for dealing with the debt overhang in the remaining 11 HIPCs that have yet to reach decision point.
development assistance; instead, the role of the Fund’s financial support should be primarily to ease the burden of adjustment and help countries weather shocks. Thus, while the Fund’s financial and technical assistance can provide a necessary component to launching sustained growth and poverty reduction in low-income countries, macroeconomic stability and financial soundness are not sufficient conditions for sustained growth and poverty reduction. The Board therefore underscored the need for close collaboration with the Bank and other development partners in supporting country poverty reduction strategies.

B. Institutional Coordination between the Bank and the Fund

10. The interactions between teams at the country level are complemented by broad-based and well-developed mechanisms of institutional coordination. Regular meetings between the President of the Bank and the Managing Director of the Fund, as well as between the Managing Directors of the Bank and the Deputy Managing Directors of the Fund, provide the foundations for a regular dialogue at the most senior level of both managements. Senior staff in Fund Area Departments and Regional Vice Presidencies in the Bank are also in close and regular contact; and so are respective central units on key policy issues of mutual interest with a growing number of joint activities. Staffs of each institution attend Board meetings at the other institution, where they are available to clarify issues raised by Executive Directors, including on coordination.

11. These regular contacts are also buttressed by two institutional coordination mechanisms: the Joint Implementation Committee (JIC) for cooperation in HIPC/PRSP countries and the Financial Sector Liaison Committee (FSLC) for cooperation in financial sector work. The FSLC, established in 1998 for cooperation in the financial sector work, has been instrumental in improving procedures by which staff exchange information, coordinate work programs, undertake joint missions, provide consistent policy advice to country authorities, and negotiate financial sector conditions in the respective lending. Similarly, the Joint Implementation Committee (JIC), established in 2000 by Bank and Fund managements, was instrumental in fostering rapid implementation of the HIPC initiative.

C. Collaboration on Thematic Issues

12. To improve coherence in policy advice, technical assistance, program support, and conditionality, Bank and Fund staff maintain an intense dialogue on thematic policy issues. Linked to the reform of the international financial architecture, the two institutions are closely collaborating on programs such as the Financial Sector Assessment Programs (FSAP), the Reports on Standards and Codes (ROSCs), or the Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) initiatives. The two institutions also continue to step up their support to countries on cross-cutting issues on the global development agenda, trade, and global monitoring of policies and actions for achieving the MDGs and related outcomes, including aid and aid effectiveness. Box 1 ("Areas of Intensified Bank-Fund Collaboration") provides an overview of selected policy initiatives where Bank-Fund collaboration is being strengthened. In addition, two areas of crucial importance where enhanced cooperation increasingly draws on the comparative advantages of the two institutions are Public Expenditure and Financial Management and Poverty and Social Impact Analysis. Work on, and collaboration in these two areas have been revamped as described in Section IV.
Box 1. Selected Areas of Intensified Bank-Fund Collaboration

A. Joint Work on the International Financial Architecture

1. Financial Sector Reform. To strengthen collaboration in the financial sector, a joint Bank-Fund Financial Sector Liaison Committee was established in 1998. Enhanced collaboration is also reflected in the Financial Sector Assessment Programs (FSAP), jointly undertaken by the Bank and the Fund, which aim at assessing a country’s financial sector strength and vulnerabilities and at identifying reform priorities in the context of the Fund’s surveillance and the Bank’s financial sector development work. As of end-December 2003, about 100 countries have participated or agreed to participate in the near future in an assessment. The two institutions also collaborate on FSAP follow-ups. The joint FSAP review (discussed by both Boards in March 2003) highlighted common challenges: maintain a realistic pace of assessments through streamlining; prioritization and greater selectivity; and ensure more systematic follow-up. A joint Bank-Fund review is planned by 2005, and a joint research program relating to measures of financial sector development and deepening is underway.

2. Reports on Standards and Codes (ROSCs). The Bank and the Fund are collaborating closely on a program to assess progress in member countries’ implementation and observance of standards and codes. The Fund has taken the lead on data and fiscal transparency; both institutions have assessed financial sector standards jointly as part of the FSAP; and the Bank has taken the lead in corporate governance, accounting and auditing, and insolvency and creditor rights. During the joint review by both Boards in March 2003, the Boards called for greater prioritization and adequate follow-up on ROSCs. A joint Bank-Fund review is planned for 2005.

3. Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT). The Bank and the Fund have started a joint action plan complementary to the efforts of others, aimed at helping countries build their regulatory and institutional framework to fight money laundering and the financing of terrorism. The Bank and Fund Boards have agreed to add the Financial Action Task Force (FATF) 40+8 Recommendations to the list of areas and associated standards and codes useful to the operational work of the Bank and the Fund. The Bank and Fund Boards endorsed a 12-month pilot program of AML/CFT assessments and accompanying ROSCs, to be undertaken with a number of partners, in particular the FATF and the FATF-Style Regional Bodies (the Asia-Pacific Group, the Caribbean Financial Action Task Force, the Eastern and South African Anti-Money Laundering Group, South American Group for International Financial Action Against Money Laundering (GAFISUD) and Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL)). Bank- and Fund-led assessments have been integrated into the joint FSAP framework. About 50 countries have been assessed during the 12-month pilot program. The pilot program will be reviewed by the Bank and the Fund Boards in March 2004, with a view to make this program permanent. A revised assessment methodology is under preparation to bring it in line with the revised FATF 40+8 recommendations, adopted in June 2003.

B. Joint Work on Global Development Issues

4. Trade. The Bank and the Fund are following up on their commitment, expressed in the joint letter of the Fund’s Managing Director and the Bank’s President to the Director-General of the World Trade Organization (August 2003), to assist countries in taking full advantage of the opportunities from international trade. In particular, the Bank and the Fund are working on three main priorities: i) help countries design policies, institutional reforms, and investment programs aimed at addressing key obstacles to trade expansion; ii) help governments design measures to support affected population groups; and iii) tailor respective lending to respond to the specific challenges posed by the Doha Development Agenda. In November 2003, in a letter to Heads of Government of all member countries and their Finance and Trade
Ministries, Horst Köhler and James D. Wolfensohn called for renewing progress on world trade talks, emphasizing the central importance of multilateral trade liberalization to growth and prosperity.

5. Millennium Development Goals (MDGs) and Global Monitoring. At its April 2003 meeting, the Development Committee reaffirmed its commitment to a regular monitoring of the policies and actions of developing and developed countries and development agencies for achieving the MDGs and related outcomes. Pursuant to that, at its September 2003 meeting in Dubai, the Development Committee agreed upon a plan for an annual global monitoring report—to be available in time for the Spring Development Committee meeting—supplemented by interim reports on selected issues. The Spring 2004 global monitoring report will present an assessment of the policies and actions in key areas and, based on that assessment, identify priority issues for Development Committee discussions. This report will be prepared jointly by the Bank and the Fund, in consultation with other partner agencies. The division of labor between the Fund and the Bank reflects their areas of mandate and comparative advantage, with the Bank focusing on structural and social policies and the Fund focusing on macroeconomic policies. To enhance and facilitate the monitoring of progress towards the MDGs, Bank and Fund staff are collaborating on enhancing the General Data Dissemination System (GDDS) to support the compilation of MDG indicators.

6. Aid and Aid Effectiveness. While the Bank has the leading role on issues related to aid and aid effectiveness, close collaboration with the Fund in this area is crucial, especially given the importance for both institutions of meeting the MDGs agenda. Joint work is occurring in three main areas. First, as harmonization is now widely seen as an integral part of the aid effectiveness agenda, the Bank and the Fund are jointly following up on the implementation measures set in the Rome declaration issued, in February 2003 by the High-Level Forum on Harmonization. Second, as requested by the Development Committee in Dubai, the Bank and Fund will report by the next Spring meetings on ongoing work on “(…) the merits of various policy options, such as an international financing facility, to mobilize the substantial additional resources that are needed over the medium term …”, for financing additional development aid. Lastly, the IMF and the Bank will, at the next 2004 annual meetings, jointly respond to the IMFC request expressed in Dubai, “to do further work on aid effectiveness, absorption capacity, financing facilities and results-based measurement mechanisms (…)”.

7. Debt Sustainability. Bank and Fund staff collaborated on the preparation of debt sustainability assessments for the HIPC initiative and for periodic statistical updates on progress towards implementation of the initiative. In addition, recent analytical work by the staffs of the two institutions has focused on developing a common framework for assessing debt sustainability in low-income countries in the future.

III. ASSESSMENT OF BANK-FUND STAFF COLLABORATION ON COUNTRY PROGRAMS

13. The assessment of Bank-Fund collaboration in Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality—Progress Report (discussed by the Boards in September 2002) was based, in part, on a questionnaire that surveyed staff views on the state of Bank-Fund collaboration as well as factors they perceived as helping or impeding it. At that time, it was noted that the survey provided an initial snapshot of the state of Bank-Fund collaboration on program design and conditionality following the introduction of the enhanced collaboration framework. It was also agreed to carry out an update of the survey in late 2003 and to solicit the views of national authorities regarding Bank-Fund collaboration.
14. To this end, two surveys were designed (see Annex I). The first was sent to national authorities in countries with either current or recent Bank adjustment lending operations or Fund-supported programs (or both) through the offices of the respective Executive Directors. Questions focused on the authorities’ perception of collaboration, including the effects of collaboration on program design, conditionality and ownership. In interpreting the survey results it is important to bear in mind that response rate, while in line with similar surveys, was only 40 percent, so the results may not be fully representative of country experiences.

15. The second survey was sent to Bank country directors and Fund mission chiefs, building on last year’s survey of staff views regarding the effectiveness and quality of collaboration, and adding questions on program design and ownership, dialogue with national authorities, and the usefulness of the Bank-Fund annexes in program documents.

16. The surveys results, presented in the rest of this section, cover four broad areas of collaboration: (i) program design and country ownership; (ii) coordination and division of labor; (iii) coverage and consistency of conditionality; and (iv) specific factors contributing to, or impeding, collaboration. These themes are further illustrated by two case studies. One middle-income country, Bulgaria (Box 2), and one low-income country, Burkina Faso (Box 3), where both institutions have heavy involvement in structural reforms were chosen for this purpose.

A. Program Design and Country Ownership

17. The survey results indicate that both country authorities and staff believe that program ownership is an integral part of most Bank- and Fund-supported programs. According to the authorities, reform programs are largely or fully owned by the country, though most of these

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8 A third survey was sent to the Executive Directors in both the Bank and the Fund, asking their views on the existing Bank-Fund relations annexes. The results of this survey are analyzed in section IV.B below.

9 Via the offices of the respective Executive Directors, the survey was sent to the national authorities of 95 countries with either current (as of mid-2003) Bank operations or Fund-supported programs, or an operation/program at any time during the past two years. In the case of the Bank, this includes PRSP countries as well as other countries with adjustment lending operations or where the Bank is active in providing advice. In the case of the Fund, program countries include PRGF countries and countries with upper credit tranche arrangements. The staff questionnaire was sent to the country teams for the same set of countries.

10 A number of respondents indicated that their experience with active programs was not sufficiently recent (for instance, the program or operation had expired almost two years ago) to merit inclusion in the survey results and therefore declined to respond. In total, responses from 38 national authorities were received, yielding a response rate which, while on the low side, is comparable to the response rates on similar surveys of national authorities. The staff survey draws on the views of Bank country directors for 48 countries and Fund mission chiefs for 72 countries.
responses fall into the first of these categories (46 versus 35 percent); conversely, almost one-quarter of respondents felt that ownership was lacking or only partial (Figure 1-A). Some 85 percent of the authorities responded that Bank and Fund support has served to widen ownership of the country’s development strategy (Figure 1-B). Mirroring this finding, a majority of Bank and Fund staff (89 percent) believe that programs are largely or substantially aligned with a country’s own development strategy—though 10 percent of Fund respondents and 13 percent of Bank respondents found little or no alignment (Figure 1-C).

18. The authorities also acknowledge increased flexibility on the part of both institutions in program design, showing greater sensitivity to social and political constraints; none of the authorities responded that they consider either the Bank or Fund staff to be very inflexible. Nevertheless, the authorities perceive the Bank and Fund somewhat differently: whereas 20 percent of the respondents believe that the Bank is very flexible in program design, the corresponding figure for the Fund is only 11 percent (Figure 1-D). Similarly, 21 percent of the respondents strongly agree that collaboration has resulted in Bank conditionality being more sensitive to political and social concerns, compared to only 12 percent for conditionality in Fund-supported programs (Figure 1-E). The authorities’ perceptions are largely mirrored in the answers by the staff, who believe that they have been open-minded when designing conditionality. Specifically, a majority of Fund staff believe that conditionality was partly modified during program negotiations. In the case of the Bank, a majority of staff respond that conditionality was largely modified. Almost 90 percent of Fund staff responses indicate that they consider the World Bank to be rather or very flexible in discussions with authorities and donors, but less than 75 percent of the Bank respondents consider Fund staff to be rather or very flexible (Figures 1-F, 1-G).

19. The authorities’ responses also suggest that improvements in Bank-Fund collaboration have had positive effects on numerous specific aspects of program discussions. Specifically, improved collaboration has served to reduce the time spent discussing and negotiating policies to be supported by the Bank and the Fund (Figure 1-H). In addition, the vast majority of the authorities’ responses stress that good collaboration has facilitated the delivery of technical assistance—over 90 percent of the responses note that the delivery of technical assistance has largely or very much improved as a result of good collaboration.
Figure 1. Program Design and Country Ownership 1/

Chart A. Authorities’ response to:
What is the extent of country ownership of Bank/Fund-supported programs?

Chart B. Authorities’ response to:
Do you agree that Bank-Fund participation has led to wider ownership of your development strategy?

Chart C. Staff response to:
How aligned are Bank- and Fund-supported programs and the country’s own development strategy?

Chart D. Authorities’ response to:
How flexible are the Bank and Fund in taking the views of authorities during program design?

Chart E. Authorities’ response to:
Has Bank-Fund collaboration made conditionality more sensitive to social and political concerns?

Chart F. Staff response to:
Do you perceive the World Bank as flexible in its discussions with authorities and donors?

Chart G. Staff response to:
Do you perceive the IMF as flexible in its discussions with authorities and donors?

Chart H. Authorities’ response to:
Do you agree that increased Bank-Fund collaboration has reduced the program preparation burden of authorities?

1/ All figures are in percent of respondents.
Box 2: Bulgaria—Bank-Fund Collaboration in Practice

Bulgaria has adhered to a policy framework centered on its currency board arrangement since 1997. A prudent fiscal policy and strict income policies have kept inflation low and the external balance sustainable. Structural reforms over the past few years have focused primarily on enterprise and financial sector issues, in part because these were the main source of financial imbalances during Bulgaria’s first few years of transition. Consequently, less attention was devoted to other reform areas, such as social sector and institutional reforms.

The first phase of enterprise reforms—now largely finalized—aimed at privatizing enterprises in non-strategic sectors. The second phase—where progress has been slower—attempts to develop regulatory frameworks in strategic sectors (electricity, water, telecoms), strengthen market institutions, and improve governance and the delivery of social services. In the banking sector, the priority was to resolve the status of banks with weak loan portfolios while attracting strategic investors and strengthening banking supervision.

From a Development Strategy to Program Conditionality

Against this background, Bank lending operations and Fund arrangements initially centered on reforming the enterprise and financial sectors. Conditionality was extensive, at times applying to individual banks or enterprises; out of 55 structural conditions in FY00 (see box table below), 25 focused in these two sectors. A number of other structural conditions dealt with establishing new regulatory frameworks, a pre-condition for the successful privatization of enterprises in strategic sectors.

The nature of conditionality and the number of conditions evolved over time. At present, Bank conditionalities reflects increased involvement in second-generation reforms (e.g., governance, institution building, and social sector reforms). The Bank’s CAS includes a three-year programmatic adjustment lending (PAL) program, of which the first PAL operation—approved in February 2003—aims at advancing regulatory and institutional reforms in the real and financial sectors. The decline in the number of conditions in Fund arrangements reflects several factors—the emphasis on streamlining conditionality, the switch from an EFF-arrangement to a SBA, and the broader scope of the Bank-supported operations in the health and education sectors, in particular. Enterprise and financial sector reforms, though still very detailed, represent one-quarter of all structural conditions compared to almost one-half in FY00.

Bank-Fund Collaboration

The division of labor between the Bank and the Fund has been clearly defined. The Fund took early on the lead in macroeconomic policies and in trade reform issues. More recently, the Fund has focused its attention on tax administration and the development of a Treasury system. The Bank has been supporting the government’s efforts to address poverty reduction and meet social development objectives. In general, the Bank has been leading the dialogue on the core structural aspects of the reform.

The areas of overlap in conditionality benefited from good collaboration. The staffs of the two institutions carried out a Financial Sector Assessment Program (FSAP) that provided a shared perspective on the financial sector, and served as a basis for financial sector conditionality under both the SBA and PAL programs. Similarly, the Bank contributed to the dialogue with a poverty assessment and a Public Expenditure and Institutional Review (PEIR). The Fund and Bank teams have also worked closely with the government on the development of a new regulatory framework in the energy sector, based on their respective mandates.

Bulgaria—World Bank and Fund Structural Conditionality by Fiscal Year 1/2

<table>
<thead>
<tr>
<th>Area of Reform</th>
<th>Binding conditionality FY00</th>
<th>IMF Structural Benchmarks FY00</th>
<th>IMF Structural Benchmarks FY02</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>World Bank</td>
<td>IMF</td>
<td>World Bank</td>
</tr>
<tr>
<td>Trade regime</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Capital account</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Enterprise reform and privatization</td>
<td>4</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Tax and expenditure reform</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Social policy and safety net</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Financial sector</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Labor market</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Institution building</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Other structural areas/sectors</td>
<td>9</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>20</td>
<td>22</td>
</tr>
</tbody>
</table>

1/ The periods selected follow the World Bank's fiscal year; FY00 is July 1, 1999 to June 30, 2000 and FY02 is July 1, 2001 to June 30, 2002.
2/ World Bank loans include: Financial and Enterprise Sector Adjustment Loan and first tranche of Environment and Privatization Support Adjustment Loan (EPSAL) in FY00 and Agriculture Sector Adjustment Loan and second tranche of EPSAL in FY00. Fund arrangements include: EFF (third review) and a SBA (second review). Only reforms with test dates in the referenced fiscal year are included.
Box 3. Burkina Faso—Bank-Fund Collaboration in Practice

Burkina Faso has outlined its development strategy in its PRSP (May 2000). The PRSP outlines a more effective framework for deciding when and how the government should intervene. The PRSP set out the following four pillars of the government’s strategy: accelerating equitable growth; promoting access to social services; increasing employment and income-generating activities for the poor; and promoting good governance.

From a Development Strategy to Program Conditionality

The Fund has provided support to the government’s program under ESAF/PRGF arrangements between FY00 and FY02. Tax and trade reform were considered essential to creation of an environment conducive to efficient private sector investment and growth. The Bank has focused on action plans in key economic sectors and reforms to improve public finance management, as well as governance and decentralization issues through a series of poverty reduction and support credits. The design of the Bank’s PRSC represents a shift in the way IDA supports growth and poverty reduction in the country, moving toward more consolidated programmatic support, increased support to social sectors, and building institutional capacity to help the authorities manage public resources more effectively. The total number of structural conditions in Bank-supported programs increased from 11 to 14 between FY00 and FY02, whereas the number of Fund’s conditions did not change.

Bank-Fund Collaboration

The division of labor between the Bank and the Fund benefited from focusing on a limited number of reform areas. The Fund took the lead in the policy dialogue on macroeconomic policies. Its conditionality focused primarily on privatization and tax administration in FY00. More recently, the Fund has added conditionality on trade policies and financial sector. The Bank has taken the lead in assisting with the privatization of energy and telecommunications sectors and removing administrative obstacles to the creation of enterprises and private investment. With introduction of the first PRSC, the Bank has significantly broadened the scope and detail of its assistance to Burkina Faso. It is also acting as lead agency in supporting pro-poor sectoral policies and institutional changes focusing on basic education, health, and rural development.

Burkina Faso—World Bank and Fund Structural Conditionality by Fiscal Year 1/2/

<table>
<thead>
<tr>
<th>Area of Reform</th>
<th>Binding conditionality</th>
<th>IMF Structural Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY00</td>
<td>IF02</td>
</tr>
<tr>
<td></td>
<td>World Bank</td>
<td>IMF</td>
</tr>
<tr>
<td>Trade regime</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Capital account</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Enterprise reform and privatization</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Tax and expenditure reform</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Social policy and safety net</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Financial sector</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Labor market</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Institution building</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Other structural areas/sectors</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>11</td>
<td>4</td>
</tr>
</tbody>
</table>

1/ The periods selected follow the World Bank's fiscal year; FY00 is July 1, 1999 to June 30, 2000 and FY02 is July 1, 2001 to June 30, 2002.
2/ World Bank loans include: Third Structural Adjustment Credit in FY00 and first Poverty Reduction and Support Credit (PRSC) in FY02. IMF arrangements include an ESAF/PRGF program (program approval) and its sixth review. Only reforms with test dates in the referenced fiscal year are included.

based on their respective mandates. Important elements of the reform program incorporate the main recommendations of the HIPC Assessment and Action Plan prepared jointly by the staffs of the two institutions. In FY02, the Bank and Fund teams closely collaborated in supporting the government’s reform with complementary conditions on adopting a new legal framework and bringing into operation an independent supreme audit institution and the anti-corruption unit.
B. Coordination and Division of Labor

20. Almost all country authorities—94 percent—feel that their discussions and programs with both the Bank and the Fund focus on the country’s own priority areas, which in turn help deepen country ownership of programs (Figure 2-A). In line with this outcome, over 98 percent of both Bank and Fund respondents claim to have a largely shared or common perspective on the reforms a country needs to implement (Figure 2-B).

21. Underlying this common perspective is a relatively clear division of labor between Bank and Fund staff regarding each institution’s responsibilities in particular areas of reform. More than 90 percent of Bank and Fund staff respondents claim that the roles of the two institutions are either largely or fully clear (Figure 2-C), slightly above the 2002 tally (83 percent; Box 4). Nevertheless, there is scope for improvement as most respondents report that the respective roles are largely, rather than fully, clear.

22. Regarding communication and upstream coordination, 90 percent of Bank and Fund staff indicate that they often or always receive pertinent information, comments, and technical inputs from their counterparts in a timely manner (Figure 2-D). It is noteworthy, however, that 65 percent of Bank respondents believe that they always receive inputs from their Fund colleagues in a timely manner, whereas only 38 percent of Fund respondents claim always to receive timely inputs from Bank staff. Respondents from both institutions invite each other to comment as part of their internal review process of draft Board documents (79 percent; Figure 2-E), and additional responses (also 79 percent, Figure 2-F) indicate that these views are either always or often taken into account.

23. Involvement in the design of conditionality by counterparts at the other institution is also common, though there are some differences in the perceptions between Bank and Fund staff. About 90 percent of respondents at both institutions report at least some involvement (Figure 2-G), though about half of Fund respondents report some discussion while about one-half of Bank respondents report detailed discussion (and 4 and 18 percent, respectively, claim joint decision-making). In part, this may be because Fund staff tend to draw on the expertise of Bank staff for the design of structural measures and associated conditionality given the Fund’s narrower mandate in structural areas. Regardless of these differing perceptions, there is broad agreement among respondents that this involvement is effective (89 percent; Figure 2-H).

11 Bank and Fund staffs in IDA countries appear to have a greater sense of common perspective on structural reforms, perhaps because of the existence of a formal arrangement for collaboration through the PRSP process. It should be stressed, however, that the sample of respondents is small, and even more so once it is broken into IDA and non-IDA countries.
Box 4. Evolution of Bank-Fund Collaboration, the 2002 and 2003 Surveys

Data indicate that a number of improvements took place since 2002 in the area of division of labor and coordination. In particular:

- close to 98 percent of all staff respondents believe that a largely shared or common perspective on reforms exists and the share of staff with a common perspective increased from 48 to 63 percent (Chart A);
- 91 percent of all staff respondents believe that the division of labor is very clear (up from 83 percent in 2002; Chart B); and close to 90 percent of all staff report that they participate in the formulation of other institution’s conditionality (Chart C) and the vast majority of these respondents perceive this involvement as largely or highly effective.

But there are also areas where the responses suggest some deterioration:

- coverage of important reform areas decline by 7 percentage points to 81 percent, in large measure as a result of an increase in the number of respondents that classify coverage as partial (Chart D);
- dissatisfaction with the timetables for implementation of conditionality have increased from 27 to 38 percent of all respondents (Chart E); and
- the categories revealing concern on enforcement of conditionality by the other institution have risen (Chart F).

In other areas few changes since the 2002 survey are discernible.
Figure 2. Coordination and Division of Labor 1/

**Chart A. Authorities' response to:**

Do you agree that the Bank and the Fund focus in areas of country's priorities?

<table>
<thead>
<tr>
<th></th>
<th>World Bank</th>
<th>IMF</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>strongly agree</td>
<td>1</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>agree</td>
<td>37</td>
<td>54</td>
<td>91</td>
</tr>
<tr>
<td>disagree</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>strongly disagree</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

**Chart B. Staff response to:**

What is the extent of shared perspective on reforms of Bank and Fund teams?

<table>
<thead>
<tr>
<th></th>
<th>Fund respondents</th>
<th>Bank respondents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>no shared perspective</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>partly shared perspective</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>largely shared perspective</td>
<td>36</td>
<td>35</td>
<td>71</td>
</tr>
<tr>
<td>common perspective</td>
<td>65</td>
<td>63</td>
<td>128</td>
</tr>
</tbody>
</table>

**Chart C. Staff response to:**

How clear is the division of labor?

<table>
<thead>
<tr>
<th></th>
<th>Fund respondents</th>
<th>Bank respondents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>not clear</td>
<td>4</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>partly clear</td>
<td>11</td>
<td>8</td>
<td>19</td>
</tr>
<tr>
<td>largely clear</td>
<td>49</td>
<td>55</td>
<td>104</td>
</tr>
<tr>
<td>fully clear</td>
<td>65</td>
<td>55</td>
<td>120</td>
</tr>
</tbody>
</table>

**Chart D. Staff response to:**

Do you receive timely inputs from the other institution?

<table>
<thead>
<tr>
<th></th>
<th>Fund respondents</th>
<th>Bank respondents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>not received</td>
<td>3</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>occasionally</td>
<td>4</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>often received</td>
<td>53</td>
<td>42</td>
<td>95</td>
</tr>
<tr>
<td>always received</td>
<td>65</td>
<td>48</td>
<td>113</td>
</tr>
</tbody>
</table>

**Chart E. Staff response to:**

Are you invited to comment in other institution's internal process?

<table>
<thead>
<tr>
<th></th>
<th>Fund respondents</th>
<th>Bank respondents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>rarely or never</td>
<td>6</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>sometimes</td>
<td>20</td>
<td>17</td>
<td>37</td>
</tr>
<tr>
<td>often</td>
<td>39</td>
<td>37</td>
<td>76</td>
</tr>
<tr>
<td>always</td>
<td>39</td>
<td>49</td>
<td>88</td>
</tr>
</tbody>
</table>

**Chart F. Staff response to:**

Are your views were taken into account by the other institution?

<table>
<thead>
<tr>
<th></th>
<th>Fund respondents</th>
<th>Bank respondents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>rarely or never</td>
<td>4</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>sometimes</td>
<td>16</td>
<td>23</td>
<td>39</td>
</tr>
<tr>
<td>often</td>
<td>23</td>
<td>18</td>
<td>41</td>
</tr>
<tr>
<td>always</td>
<td>19</td>
<td>14</td>
<td>33</td>
</tr>
</tbody>
</table>

**Chart G. Staff response to:**

How would you characterize your involvement in the formulation of other institution's conditionality?

<table>
<thead>
<tr>
<th></th>
<th>Fund respondents</th>
<th>Bank respondents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>no consultation</td>
<td>11</td>
<td>10</td>
<td>21</td>
</tr>
<tr>
<td>some discussion</td>
<td>27</td>
<td>43</td>
<td>70</td>
</tr>
<tr>
<td>detailed discussion</td>
<td>32</td>
<td>46</td>
<td>78</td>
</tr>
<tr>
<td>joint decision making</td>
<td>4</td>
<td>18</td>
<td>22</td>
</tr>
</tbody>
</table>

**Chart H. Staff response to:**

Is the involvement in other institution's conditionality (if any) effective?

<table>
<thead>
<tr>
<th></th>
<th>Fund respondents</th>
<th>Bank respondents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>not effective</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>mixed</td>
<td>16</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td>largely effective</td>
<td>53</td>
<td>55</td>
<td>108</td>
</tr>
<tr>
<td>highly effective</td>
<td>64</td>
<td>64</td>
<td>128</td>
</tr>
</tbody>
</table>

1/ All figures are in percent of respondents.
C. Coverage and Consistency of Conditionality

24. The paper *Strengthening IMF-World Bank Collaboration on Country programs and Conditionality* (August 2001) and the Conditionality Guidelines (2002) call for each institution to have conditionality on reforms deemed critical to the success of the country’s program it is supporting, with the understanding that the design and monitoring of the reform measures should draw on the other institution’s expertise when these lie outside the institution’s own core areas. While staff responses indicate broad satisfaction with the application of this principle, there are important differences in perceptions. Most respondents (81 percent) share the view that coverage by conditionality of important reform areas is adequate, but the perceptions of Bank and Fund staff differ. Over 90 percent of all Bank respondents believe that the important reform areas are largely or fully covered, compared to only 75 percent of Fund respondents (Figure 3-A). A greater proportion (47 percent) of Fund mission chiefs are less satisfied with the other institution’s coverage in key policy areas (not covered or some gaps) than the corresponding proportion (16 percent) of Bank country directors who feel that there are gaps in the coverage of Fund conditionality (Figure 3-B). The views of national authorities on coverage and collaboration add a new dimension to this assessment. Of country authorities’ respondents, 93 percent feel that collaboration has led to better coverage of reform areas and two-thirds of these respondents report that collaboration has reduced the number of program conditions. In line with these results, slightly over 90 percent of these respondents perceive that collaboration has improved the focus on critical reform areas (Figure 3-C).

25. Some 61 percent of the authorities’ responses indicate that the degree of duplication of conditionality is, at most, low (Figure 3-D), a view that is consistent with the observed facts of areas covered by conditionality in both institutions (Box 5). Also, almost half of the authorities feel that duplication arises either because the conditions are critical for both programs (45 percent) or because of problems in timing or phasing of conditionality (47 percent), while less than 10 percent believe that it reflects inadequate collaboration between the staffs of the two institutions. Staff perceptions are similar, though Bank staff indicate somewhat greater concern about duplication of conditionality in overlapping areas (35 percent). In contrast, only 9 percent of Fund respondents indicate some duplication, while 39 percent see none (Figure 3-E). On the reasons for duplication, 72 percent of staff responses indicated that the duplication was because the measures were considered critical to both institutions’ programs.

26. National authorities mostly see the timetable for reform proposed in Bank- and (to a somewhat lesser degree) Fund-supported programs as being realistic. For both institutions, two-thirds of the national authorities responded that they either agree or strongly agree that the timetables are realistic (Bank 72 percent and Fund 60 percent). Similarly, more than half of the staff respondents believe that the other institution’s timetable for implementation of key measures is about right (Figure 3-F). However, close to half of the Fund respondents feel that key reforms in the Bank-supported programs could be implemented faster, compared to 11 percent of Bank staff who think that Fund-supported measures could be undertaken faster. Likewise, 18 percent of Bank respondents consider the Fund’s timetable to be overly ambitious, while only 1 percent of Fund respondents feel that the Bank’s timetable is overly ambitious.
27. Relative to the 2002 survey, staff respondents report somewhat greater concern about the other institution’s **enforcement of conditionality** (Box 4). In particular, Fund responses tilt more towards **occasional** (48 percent) and **some** (27 percent) **concern**; only 18 percent report **no concern**, while Bank responses tilt towards **no** (39 percent) or **occasional** (39 percent) concern (Figure 3-G). At the same time, there was somewhat greater agreement by national authorities that the Fund demonstrates greater flexibility than the Bank in applying waivers in the face of unexpected or exogenous shocks (Figure 3-H).

**D. Factors Supporting and Impeding Effective Collaboration**

28. Ultimately, the purpose of the surveys is to find ways in which to improve collaboration. Respondents were therefore asked to rate various factors—identified in the 2002 survey as being contributors or impediments to effective collaboration—in terms of importance in their own experience. Consistent with last year’s findings, when asked about the factors that **support** collaboration, more than 90 percent of both Bank and Fund staff emphasized the need for consistency of views, clarity and complementarity of the division of labor, coordination in shared areas of responsibility, complementary lending or intervention instruments, and relations between country teams (Figure 4). The existence of formal arrangements for collaboration, such as the PRSP, was also seen as important, albeit less so than these other factors.¹²

29. **Country authorities** concurred with these responses but also emphasized the importance of having their own, country-driven development strategy that increases the demand for well-coordinated policy advice, program design, and conditionality by the two institutions. On the supply side, they underscored the need for institutional commitment—as expressed in incentives and allocation of adequate resources—to collaboration between the Bank and the Fund. In practical terms, greater coordination at the country level and joint missions would foster collaboration and help reduce the time required for interactions with staff, which may be of particular importance in countries with limited implementation capacity.

30. Finally, asked to rate which factors specifically **impeded** collaboration, mirroring the responses of the authorities, the staffs identified a lack of client (country) leadership (32 percent) or of a country-owned development strategy (24 percent) as being the most important. Of the institutional factors stressed by the authorities, structural or institutional impediments (23 percent) and the lack of incentives and resource allocation (20 percent) ranked high in the staff responses as well. Respondents from both institutions also emphasized differences in institutional strategy and management styles, internal bureaucracy, and poor personal relations as impediments. Collaboration is also viewed as being difficult in countries where both institutions are not equally present and actively involved.

¹² Likewise, the survey of country authorities on collaboration on public expenditure issues (SM/03/73 and SecM2003-0077) found that country ownership and PRSPs are important elements of enhanced Bank-Fund collaboration.
Box 5. Evolution of Structural Conditionality in Low-Income Countries

A review of Bank and Fund conditionality in low-income countries also indicates a shift in the areas of involvement of each institution over the past few years. Consistent with the Fund’s efforts to streamline and focus conditionality, the average number of structural policy conditions under PRGF arrangements and reviews has decreased sharply. In parallel, the Bank has expanded structural conditionality in its core areas.

While interpreting trends in the numbers of conditions, especially across the two institutions, is fraught with difficulty, a count of the average number of structural conditions in programs approved between the period 1998-2000 and those approved in the period 2001-2002 suggest:

• the Fund maintained its preeminence in its core areas (exchange rate policy, monetary policy, capital account);
• the Bank deepened its involvement, while the Fund reduced its structural conditionality, in the Bank’s core areas (poverty reduction strategies, governance, regulatory reforms), as well as in other social and economic sectors (agriculture, infrastructure, etc.);
• the Bank has increased its role, while the Fund has reduced its structural conditionality, in the areas of public enterprise reform, financial sector, and civil service reform. Both institutions remain engaged in fiscal management including through enhanced collaboration on thematic issues.
Figure 3. Coverage and Consistency of Conditionality 1/

**Chart A. Staff response to:**

How would you characterize the coverage of important reform areas?

- Fund respondents
- Bank respondents
- Total

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Fund</th>
<th>Bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not sufficient</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Partly covered</td>
<td>5</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Largely covered</td>
<td>48</td>
<td>50</td>
<td>98</td>
</tr>
<tr>
<td>Fully sufficient</td>
<td>53</td>
<td>50</td>
<td>103</td>
</tr>
</tbody>
</table>

**Chart B. Staff response to:**

How would you characterize the other institution's coverage of policy areas?

- Fund respondents
- Bank respondents
- Total

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Fund</th>
<th>Bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not covered</td>
<td>6</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Some gaps</td>
<td>16</td>
<td>32</td>
<td>48</td>
</tr>
<tr>
<td>Adequately covered</td>
<td>49</td>
<td>58</td>
<td>107</td>
</tr>
<tr>
<td>All key areas</td>
<td>53</td>
<td>26</td>
<td>79</td>
</tr>
</tbody>
</table>

**Chart C. Authorities’ response to:**

Do you agree that Bank-Fund collaboration has led to greater focus on critical reform areas?

- World Bank
- IMF
- Total

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>World Bank</th>
<th>IMF</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>9</td>
<td>17</td>
<td>26</td>
</tr>
<tr>
<td>Agree</td>
<td>76</td>
<td>74</td>
<td>150</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>73</td>
<td>45</td>
<td>118</td>
</tr>
</tbody>
</table>

**Chart D. Authorities’ response to:**

Is there duplication of conditionality?

- World Bank
- IMF
- Total

<table>
<thead>
<tr>
<th>Duplication Level</th>
<th>World Bank</th>
<th>IMF</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>15</td>
<td>17</td>
<td>32</td>
</tr>
<tr>
<td>Low</td>
<td>42</td>
<td>47</td>
<td>89</td>
</tr>
<tr>
<td>Some</td>
<td>45</td>
<td>36</td>
<td>81</td>
</tr>
<tr>
<td>High</td>
<td>33</td>
<td>35</td>
<td>68</td>
</tr>
</tbody>
</table>

**Chart E. Staff response to:**

Is there duplication of conditionality in overlapping areas?

- Fund respondents
- Bank respondents
- Total

<table>
<thead>
<tr>
<th>Duplication Level</th>
<th>Fund</th>
<th>Bank</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>None</td>
<td>39</td>
<td>9</td>
<td>48</td>
</tr>
<tr>
<td>Occasional</td>
<td>12</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>Some</td>
<td>29</td>
<td>35</td>
<td>64</td>
</tr>
<tr>
<td>High</td>
<td>42</td>
<td>11</td>
<td>53</td>
</tr>
</tbody>
</table>

**Chart F. Staff response to:**

How would you characterize the timetable for implementation of other institution's conditionality?

- Fund respondents
- Bank respondents
- Total

<table>
<thead>
<tr>
<th>Timetable Level</th>
<th>Fund</th>
<th>Bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not ambitious</td>
<td>9</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Could be faster</td>
<td>11</td>
<td>13</td>
<td>24</td>
</tr>
<tr>
<td>About right</td>
<td>33</td>
<td>44</td>
<td>77</td>
</tr>
<tr>
<td>Too ambitious</td>
<td>11</td>
<td>8</td>
<td>19</td>
</tr>
</tbody>
</table>

**Chart G: Staff response to**

Do you have concerns regarding the enforcement of other institution's conditionality?

<table>
<thead>
<tr>
<th>Concern Level</th>
<th>Fund</th>
<th>Bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No concern</td>
<td>18</td>
<td>29</td>
<td>47</td>
</tr>
<tr>
<td>Occasional concern</td>
<td>39</td>
<td>48</td>
<td>87</td>
</tr>
<tr>
<td>Some concern</td>
<td>27</td>
<td>19</td>
<td>46</td>
</tr>
<tr>
<td>Big concern</td>
<td>18</td>
<td>24</td>
<td>42</td>
</tr>
</tbody>
</table>

**Chart H: Authorities’ response to**

Do you agree that the Bank and Fund waiver policy is sufficiently flexible?

- World Bank
- IMF
- Total

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>World Bank</th>
<th>IMF</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>18</td>
<td>24</td>
<td>42</td>
</tr>
<tr>
<td>Agree</td>
<td>30</td>
<td>55</td>
<td>85</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>74</td>
<td>64</td>
<td>138</td>
</tr>
</tbody>
</table>

1/ All figures are in percent of respondents.
IV. SUMMARY ASSESSMENT AND RECOMMENDATIONS

A. Summary Assessment

31. An important contribution of the surveys undertaken for this progress report is to provide a more systematic assessment of Bank-Fund collaboration than can be based on purely anecdotal evidence. This year’s findings echo those of the 2002 survey; indeed, along several dimensions the results are stronger, suggesting a beneficial impact as teams have gained experience with the enhanced framework and guidance introduced last year. For example, the share of staff respondents denoting a common perspective on the priority reforms for a country has increased substantially, from less than one-half to almost two-thirds. Staffs also indicate being involved closely in program design issues with their counterparts at the other institution and view this interaction as very effective.

32. At the same time, the survey findings reinforce some perceptions that are common in anecdotal evidence and that point to tensions in the collaborative process. Fund staff tend to view their Bank colleagues as being flexible—perhaps overly so—in program design and in the coverage and enforcement of conditionality. Fund staff are also more likely to have concerns about timeliness with which they receive technical inputs and about a lack of ambition in the Bank’s timetable for reforms. For their part, Bank staff are more likely to view the Fund as...
uncompromising when it comes to program design or conditionality, and too optimistic about the pace and scope of reforms that are within the implementation capacity of the country or the political and social constraints faced by the authorities.

33. These differences seem to stem less from a lack of a shared vision about the reform priorities of the country—see Figure 1-B, 1-C, above—than the difficulties inherent from differences in the mandates, cultures, and structures of the two organizations. Structural measures in Bank-led sectoral reform operations may have timetables that are hard to mesh easily with the immediacy of macroeconomic stability and the urgency of filling the budget or balance of payments gaps that are often the focus of Fund-supported programs. There are also logistical differences in interactions with the authorities, with the Fund relying primarily on headquarters-based country teams and mission chiefs, and the Bank often basing its country teams in the field under a resident Country Director, while some sector specialists continue to be headquarters-based and cover several countries. Shared perspectives and clarity of the division of labor do not rule out the possibility that important reform areas nevertheless remain uncovered by either institution, especially in light of resource constraints. Moreover, there is a need to ensure that the Bank and Fund remain engaged across the membership, even in cases where performance has been weak. In addition, in many MICs where engagement of the Bank and the Fund is less continuous, there may be an inevitable overlay on conditions pertaining to a shared perspective. Finally, there is a risk of “institution-shopping”, whereby countries may prefer to seek the support of one institution (especially to fill budgetary or balance of payments gaps), sometimes because the reform measures and conditionality associated with that support is considered less onerous.

34. The difficulties in day-to-day collaboration that stem from these differences are not insurmountable, but they clearly require a strong framework for collaboration, sustained efforts and goodwill at all levels and phases of the collaborative process—resident representatives, country teams, area and country departments, and functional departments and networks (especially on thematic issues), as well as senior management and the Executive Boards. In areas where both institutions are engaged, albeit from different perspectives, the need for upstream engagement and coordination thus remains an urgent priority. There is also potential to learn from and encourage adoption of best practice in team collaboration at the country level; some institutional mechanisms for doing so are considered below.

35. As emphasized by the authorities’ survey responses, also critical to achieving the shared objectives of financial stability, sustainable growth, and poverty reduction is strong country ownership and national leadership of development and economic policy programs. This echoes earlier findings, in particular in the latest progress report on PRSPs, which identified as a pressing priority the need to assist low-income countries better in the preparation and implementation of fully-owned PRSPs, and facilitate aligned support from the donor
community. Some ways of enhancing ownership that draw on collaboration and joint analytical work on thematic issues are explored below.

### B. Enhancing Collaboration

36. While the survey results suggest that overall framework for Bank-Fund collaboration is generally robust, efforts are underway to improve collaboration in the four key dimensions of the collaborative process: collaboration at the country level, institutional coordination between the Bank and the Fund, more focused reporting to the Boards, and joint upstream analytical work on thematic issues that feeds into the dialogue with the country and bolsters ownership.

#### Framework for Bank-Fund Collaboration at the Country Level

37. In low-income countries, a well-defined country framework has been put in place with the advent of the PRSPs and of the enhanced HIPC initiative, thus providing a good basis for a coherent and consistent work of the Bretton Woods Institutions, fully aligned with the country’s development strategy. In particular, the Joint Staff Assessments (JSA), which evaluate the soundness of the PRSPs, have helped the staffs to develop common views. Building on this framework, three complementary priorities can be defined. First, support for PRSP formulation and implementation remains crucial in strengthening country ownership and leadership of their programs—identified by national authorities as areas for improvement. In particular, the Bank and Fund staffs have agreed to work jointly to help countries explore "alternative scenarios" to accelerate progress on the MDGs and their financing implications as part of the PRSP process. Second, improving the design of program measures through increased joint and upfront analytical work that draws on each institution’s comparative advantages appears fundamental to ensure the elaboration of a common diagnosis which can then feed into the country process. In addition, such improved analytical work on reform measures, including estimates of their impact and costs and benefits, could provide a fruitful avenue for building national ownership. Third, reinforcing upstream engagement and coordination of the two institutions, using in particular the opportunity offered by the JSA process, would further efforts to promote synergies, better delineate responsibilities in support of the PRSPs, and reduce gaps or overlap.

38. In middle-income countries (MICs), there is no explicit framework for country-led coordination as in the case of PRSP countries. The wide variety of financing needs among MICs leads to differences in the timing and nature of Bank and Fund support and in the content and scope of conditionality, making collaboration more challenging. Nevertheless, the principles for effective collaboration remain the same: agreement on a coherent program of support based on a

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14 The considerations affecting Bank-Fund Collaboration in MICs are discussed in the joint 2001 review on “Strengthening World Bank-IMF Collaboration on Country Programs and Conditionality” (SecM2001-0461/1, August 24, 2001 and SM/01/219, Supplement 1, Revision 1, August 23, 2001)
country-owned strategy; early consultation on program design and conditionality; and division of responsibilities, based on respective mandates and comparative advantage. While the roles and methods of intervention of the Fund and of the Bank are constantly evolving in MICs to keep pace with their diverse needs, both institutions are committed to supporting MICs in their growth and development strategies, based on their respective mandates. Against this background, it will be important to pay continued close attention to the modalities of Bank-Fund collaboration in these countries, building on past lessons and evolving experience.

39. Better upstream engagement between staffs remain key to strengthen collaboration and improve coherence and consistency of support and conditionality in both low and middle income countries. Existing mechanisms (joint staff assessments in PRSP countries, preparation of World Bank Country Assistance Strategies and of Fund programs) are and should continue to be the appropriate opportunities for such upstream engagement. Staffs will therefore continue to be strongly encouraged by both Managements to use these opportunities for upstream and joint work, to ensure shared views and clarity of responsibilities. In addition, joint and parallel missions provide an opportunity for strengthening collaboration in low- and middle-income countries alike. Drawing on resident representatives and field offices of both institutions also allows for more informed assessments about political constraints and country ownership as well as facilitating outreach efforts. Moreover, these same mechanisms will help frame a better coordinated dialogue between the authorities and the staffs.

Institutional Coordination between the Bank and the Fund

40. In order to bolster collaboration between country teams and to strengthen overall Bank-Fund collaboration, Bank and Fund management also intend to re-establish the Joint Implementation Committee. As noted above, the JIC, established in 2000, was instrumental in fostering rapid implementation of the HIPC initiative. Gradually, however, evolution in the size and structure of the JIC meant that it was not able to retain its focus and effectiveness. Therefore, Bank and Fund management intend to re-establish the JIC with a more streamlined structure. A small group of senior staff members of both institutions will meet regularly in the JIC, with additional participation invited on an ad hoc basis as relevant to the issue under consideration, and report to management. The JIC would address cross-cutting issues on Bank-Fund collaboration, monitor progress on implementation of the agreed framework of collaboration on country programs and conditionality and, when needed, help country teams in the two institutions to reach agreement on priorities so as to ensure coherence of policy advice and program design. Coverage of cross-country issues will include those that arise in low-income as well as middle-income countries. As such, the JIC will further the institutional framework for monitoring progress on overall Bank-Fund collaboration in country programs.

Reporting to the Boards

41. Transparent reporting in Board documents of the views of each institution on reform priorities, program conditionality, and progress in implementation of the agreed program,
constitutes a crucial element for ensuring consistency of views, transparency and staff accountability. One mechanism for improved collaboration and communication with the respective Executive Boards introduced in 2002, is the enhanced annexes on IMF and World Bank relations in program documents. Aside from keeping the Boards abreast of developments, these annexes were intended to help ensure upstream engagement between the staff of the two institutions, delineate the division of responsibilities, and provide an assessment of the country’s reform efforts.

**IMF-Bank Relations Annex**

42. The *IMF-Bank Relations Annex*, provided by the Bank staff for informing the Fund’s Board, covers not only the Bank’s lending and overall assistance and work program for the country, but also systematic information about the areas where the Bank is taking the lead and its views on the reform program, including specific conditionality and progress in implementation. The annex goes through the internal clearance process, including by management, and is circulated to the Bank’s Board for information. Its disclosure in Fund documents is governed by the general disclosure policies of the Bank. Such annexes have been prepared for 53 countries over the period May 2002-December 2003.

43. In order to help ensure that the Bank relations annexes fulfill their intended purpose, guidance is being provided to Bank staff on best practices for preparing these annexes, including a clear demarcation of areas in which the Bank is involved or is taking the lead role and, where relevant, a candid analysis of the structural policy challenges. Following existing practices, IMF-World Bank Relations annexes will be provided by the Bank staff for new Fund-supported programs or when warranted by significant development and changes in country circumstances.

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15 As indicated in Section II, in addition to reporting on country matters, Bank and Fund staff have been reporting jointly to the Boards on a wide range of thematic and policy issues of joint relevance to the two institutions, such as public expenditure management, trade, FSAPs, ROSCs.


17 Only a few Directors answered the survey on the annexes on Bank-Fund relations. Respondents found the summaries useful as an instrument to communicate the staffs’ views to the Boards and the quality of the reporting to be good. Some Executive Directors noted, however, that reporting on the division of labor and the identification of the lead agency is not always as clear and that the overall picture of the coherence of program design is sometimes missing in the annexes. Moreover, comments received from Executive Directors called for more candid analysis of the macroeconomic and structural issues, as well as more information about collaboration and coordination.
**Fund Relations Note**

44. In accordance with existing guidelines, the *Fund Relations Note* provided by the Fund staff for the information of the Bank’s Board, has typically been the public information notice (PIN) following the completion of an Article IV consultation, or the Chairman’s statement after a decision on the use of Fund resources. Although the Chairman’s statement informs the Bank’s Board about the views of the Fund on a country’s program, the PIN does not provide information on the division of responsibilities between the two institutions. Since the issuance of the guidelines, a total of 38 PINs have been attached to Bank documents as Fund Relations Notes, and four Chairman’s statements.

45. To ensure that the Bank Board receives an up-to-date assessment of macroeconomic developments, it is proposed that when Fund and Bank staff jointly consider the information provided by the most recent PIN or Chairman's statement to be insufficiently up-to-date to provide an adequate assessment of current developments, the information to the World Bank's Executive Board would be provided by an assessment letter. These assessment letters would follow existing guidelines which stipulate that such letters should provide a clear and candid assessment of the country’s macroeconomic conditions, policies, and prospects. The guidelines also note that these letters may be provided to the World Bank when a recent PIN or Chairman’s statement is not available (in which case it should clearly identify reform priorities, program conditionality, and progress in program implementation). The Fund Relations Note (whether in the form of PIN/Chairman’s statement or an assessment letter) will continue to be provided by the Fund staff for Bank adjustment operations or when warranted by significant developments and changes in country circumstances. To help ensure that Fund relations notes satisfy their aim, whenever the PIN or Chairman’s statement or assessment letter is not specific enough, the remittance cover note will include a clear demarcation of structural areas in which the Fund is involved or taking the lead role and, where relevant, a candid analysis of the structural policy challenges.

**Collaboration on Thematic Issues: Public Expenditure and Financial Management**

46. In March 2003, the Executive Boards of the Bank and Fund endorsed a new framework for collaboration among development partners on public expenditure management work based

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18 This proposal brings into the collaboration framework the changes introduced by the *Operational Guidance Note for Staff on Letters and Statements Assessing Members’ Economic Conditions and Policies* issued by PDR for Fund staff in June 18, 2003. In indicative terms, and barring any major changes in a country’s circumstances, the PIN, Chairman's statement, or assessment letters are expected to remain valid for a period of up to six months.

19 The guidelines clearly state that assessment letters “should avoid language that directly encourages other creditors or donors to provide financing in support of the policies the country is pursuing, or discourages them from doing so.” The letters are circulated to the Fund’s Board for information. They can only be published with the consent of the country. If the country does not consent to publication they are excluded from the published Bank Board documentation.
on: (a) country-owned reform strategies; (b) integrated and sequenced programs of diagnostic work; (c) coordinated technical and financial support; and (d) periodic reporting of performance by countries.\textsuperscript{20} The Bank and the Fund have taken individual and collective steps (with other donors) over the past several months to make the new framework operational.

\textit{Strengthening Collaboration Among Development Partners}

47. Reflecting, inter alia, the views of donor agencies which were polled in the survey on Bank-Fund collaboration on public expenditure issues, the Bank and the Fund have worked closely with Public Expenditure and Financial Accountability (PEFA) partners to lay the groundwork for better donor collaboration.\textsuperscript{21} Consultations among PEFA members have served to expand support for the new framework by incorporating the perspectives of bilateral development partners and the European Union. A working group with membership from the Bank’s PREM and OPCS networks, the Fund’s FAD, and the PEFA secretariat was established to develop a common assessment instrument, including indicators of public expenditure management (PEM) performance. This would address coordination and effectiveness problems associated with the multiple instruments that now exist. A draft of the ongoing work on the performance indicators was completed and presented to the PEFA Steering Committee in October 2003. The work was also shared with the newly established OECD-DAC Joint Venture on Public Financial Management to facilitate broader donor harmonization on these issues.

48. Progress has been made in sharing information among development partners. The Country Analytic Website (CAW) now provides one-stop access to completed PERs, Country Financial Accountability Assessments (CFAA), Country Procurement Assessment Reviews (CPAR), and fiscal ROSC reports, together with public-finance-related work from other development partners. By enabling better coordination of analytical work, the CAW potentially reduces transactions costs for countries as well as development partners. Public expenditure documents constitute about 10 percent of all documents on the site, which was accessed approximately half-a-million times in the first half of 2003.

\textit{Bank-Fund Collaboration on Expenditure and Financial Management Issues}

49. The Bank and the Fund have continued their close collaboration on assessing PEM systems and reporting on poverty-reducing spending in HIPC.\textsuperscript{22} Several steps have also been

\begin{footnotesize}
\textsuperscript{20} See SecM2003-0077 and SM/03/73.

\textsuperscript{21} The PEFA program is a partnership of the World Bank, European Commission, the Fund, UK Department for International Development, Swiss State Secretariat for Economic Affairs, French Ministry of Foreign Affairs, Norwegian Ministry of Foreign Affairs, and Strategic Partnership with Africa. The PEFA program is managed by a Steering Committee consisting of headquarters representatives of the member agencies.

\textsuperscript{22} Trends in poverty-reducing spending and improvements in PEM systems were last reported in “Poverty Reduction Strategy Papers—Detailed Analysis of Progress in Implementation,” SM/03/279, Supplement 1.
\end{footnotesize}
taken in preparation for the comprehensive review and report to the Executive Boards in 2004. These include the development of a joint database from the previous assessments; further refinement of the assessment tool, including through the addition of a new indicator on procurement; and development of a guidance manual and provision of training for mission teams, with a view to using the process more actively to bring donors together to support country-led reforms. Staff have worked closely to plan missions to 28 countries from late 2003 through 2004, which will routinely include participation by members of both institutions.

50. Several steps have been taken to improve the coordination of work plans and missions between the Bank and the Fund. As envisaged under the new framework, FAD discusses its work on expenditure management issues with the Fund’s area department teams in the context of its Regional Technical Assistance Plan (RAP) and the mid-term review of the RAP. The RAP is also being sent to the World Bank, while the World Bank has also been informing FAD of its planned activities for expenditure work in each country. World Bank staff are also invited to the seminars that discuss FAD’s Fiscal Strategy Briefs (FSBs). In addition, draft terms of reference for FAD’s technical assistance missions are being sent to the Bank at the same time they are sent to departments in the Fund for review and comments.

51. Analytical work is also being shared for review on a regular basis. Consistent with the Fund’s new dissemination policy on technical assistance reports, FAD missions now seek the authorities’ permission to share draft and final reports with relevant development partners (including the World Bank). The World Bank will also be developing guidelines for the circulation of draft analytic work for review by relevant development partners (including the Fund).

52. Collaboration on the fiscal ROSC and CFAA has also improved. To reduce the burden on country authorities, parallel CFAA and ROSC Fiscal Transparency missions have been conducted or are planned (Croatia and Ecuador). Mission schedules are shared to avoid unnecessary overlap—in some cases resulting in postponement of a ROSC mission where a CFAA is underway or imminent (The Gambia, Senegal). ROSC updates have also been coordinated with missions to update assessments of the ability of HIPCs to track poverty-reducing spending (Benin, Honduras). Bank staff have participated as team members in Fund ROSC missions (Bangladesh). Mission planning and coordination will be further enhanced by the provision of electronic databases on scheduled CFAA and ROSC missions that are accessible to staff of both institutions. Similar joint access is being developed for institutional data, such as the database on budget system laws maintained at the Fund’s fiscal transparency website.

53. The Bank has taken a number of steps to make the new collaborative approach to public expenditure management issues work at an operational level. New guidelines and modules for public expenditure management work are being developed, in consultation with the Fund staff. In addition, new training courses and workshops, accessible to both Bank and Fund staff, are being

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23 Joint access to this database awaits completion of software links, which is expected by February 2004.
offered to facilitate collaboration and develop a common body of knowledge on public expenditure analysis and management.

54. Another significant step in collaboration is taking place in a particular aspect of the financial management of public resources. All Bank adjustment loan proceeds and a significant portion of investment loan proceeds are disbursed through the central banks of borrowing countries. Rather than conduct its own assessment of the control environment of central banks, and recognizing the Fund’s leading role in this area, the Bank’s disbursement decisions are informed by the Fund’s safeguards assessments of central banks under an agreement reached in 2002. The procedures on safeguards assessments, which provide for strict controls to safeguard the confidential nature of these assessments, as well as informal exchanges of information on relevant issues between the Bank and Fund staff, have worked very well to date to the mutual benefit of both institutions.

Collaboration on Thematic Issues: Poverty and Social Impact Analysis

55. Poverty and social impact analysis (PSIA) is a set of tools and analytical techniques designed to assess the impact on the poor and other vulnerable groups of proposed policy measures. As such, it can help form judgments about the costs and benefits of various reforms, thus contributing to better program design and country ownership. The analytical tools can range from relatively simple educated computations to sophisticated simulation techniques based on household survey data. The precise applicability of PSIA thus depends both upon the nature of the measure under consideration and the availability of data and models.

56. In terms of division of labor, the Bank, as lead agency, has taken a key role in developing analytical tools and procedures to promote and strengthen PSIA. The Bank is currently supporting, or preparing to support, PSIA for particular policies in over forty low-income countries, of which half are in Africa.

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24 Safeguards assessments are intended to provide reasonable assurance to the Fund that a central bank's control, accounting, reporting and auditing systems in place to manage resources and Fund disbursements, are adequate to ensure the integrity of financial operations and reporting to the Fund. There are five main elements to the assessments: the external audit mechanism; the legal structure and independence of the central bank; the financial reporting framework; the internal audit mechanism; and the internal controls system.

57. While recognizing the lead role of the Bank in PSIA, the Fund also acknowledges—as a matter of general principle—its own responsibility for ensuring that measures in Fund-supported programs are appropriate (and for incorporating available PSIA in PRGF program design, including compensating measures where appropriate). Nevertheless, because of the Bank’s expertise and lead role, the Fund will normally look for the Bank to assist PSIA for reforms in Fund-supported programs (if necessary drawing on support by Fund staff in areas of Fund core competence) within the constraints on the Bank’s staff and budgetary resources.

58. Against this background, it is proposed that the existing framework for Bank-Fund collaboration be strengthened to improve coordination on the preparation of PSIA. Specifically, as part of their ‘upstream engagement’ (ideally in the context of the Bank CAS and Fund program discussions), Bank and Fund country teams—led by the Bank country director and the Fund mission chief—would agree on an action plan for implementing PSIA related to reforms supported by the respective programs. These discussions will be based on the country’s reform priorities and take account of possible synergies in preparing PSIA, including work being undertaken by other development partners, the timeframe for the analysis, and the likely cost of conducting the analysis given available budgets.

59. When the Fund intends to support reforms outside the existing upstream agreement (such as on policy issues that arise subsequently) and undertaking PSIA is considered appropriate for the contemplated measure, the Fund country team would—in the first instance—seek the Bank’s assistance, including exploring the possibility of using or expanding existing or scheduled work. The Bank would consider such requests with a view to providing as much help as possible on an ad hoc basis. To the extent that resource constraints preclude the Bank from doing so, however, the Fund country team would seek assistance from other sources, including from other development partners. Moreover, Fund management is supporting the creation of a unit in FAD to facilitate the integration of PSIA into PRGF-supported programs.

V. ISSUES FOR DISCUSSION

60. The Bank and the Fund share the goals of promoting financial stability, sustainable growth and poverty reduction. This update of Bank-Fund collaboration in country programs—in particular, the survey results—suggest that, while the framework for collaboration is working reasonably well, there remains scope for improvement and for continuing to learn from each other and for adopting best practices. Bank and Fund staff will continue to monitor experience with collaboration and deal with emerging issues through the Joint Implementation Committee and other mechanisms that are now in place.

61. The most important message from the authorities’ responses is the need to bolster country ownership and leadership, as a means to improve development effectiveness. A fruitful avenue for building national ownership would be to increase and improve analytical work on reform measures, including estimates of their impact and costs and benefits. Collaborative work between the staffs of the two institutions, drawing on their respective expertise, provides an excellent opportunity for doing so. The new framework for collaboration among development partners on public expenditure issues, which was endorsed by the Boards of both institutions in March 2003, has laid the basis for closer work between the Bank and Fund staff and is showing significant
results. The staffs have also reached understandings on cooperation on PSIA, with the Bank playing a leading role, but working in close collaboration with the Fund.

62. Going forward, it will be important to keep progress on collaboration on country programs under review, while being mindful that frequent reviews or constant tinkering with framework may itself detract the collaborative efforts and work of country teams and of national authorities. Beyond the framework for collaboration on country programs, periodic reviews of the two institutions’ work on thematic issues provide an opportunity for assessing Bank-Fund collaboration in specific areas.

63. In their discussions, Executive Directors may wish to address the following questions:

- Do Executive Directors agree with the paper’s assessment of progress and remaining challenges in Bank-Fund collaboration?

- Are there any other perspectives from member countries that Executive Directors would like to convey, beyond the views already expressed in the survey?

- What do Executive Directors see as the priorities in further improving collaboration?

- What are the views of Executive Directors regarding the role of upstream analytical work in supporting country ownership of Bank and Fund supported programs?

- Do Executive Directors concur with the collaboration agenda on thematic issues as a means for improving policy advice and program design and supporting the global development agenda?
A. SURVEY OF COUNTRY AUTHORITIES

1 Collaboration and Vision
1a To what extent would you agree that discussions with IMF and World Bank teams focus on policy measures in areas that you consider to be a priority for your country?
1b To what extent would you agree that the participation of the IMF and World Bank in the discussions encouraged wider ownership of your country's development strategy and enhanced its quality and depth?
1c To what extent do you believe that IMF and World Bank demonstrated flexibility in taking the views of the authorities when designing specific program objectives and/or conditions?
1d Do you feel that your country "owns" the IMF-supported program or World Bank operation (in the sense that the authorities and stakeholders in society believe that the policies are achievable and in the best interest of the country)? If not, please indicate reasons.
1e To what extent would you agree that increased collaboration has reduced the burden on the authorities in terms of time spent in meetings with IMF/World Bank teams, responding to written requests, negotiating, etc.?
1f How do you rate the collaboration between IMF/World Bank and other bilateral and multilateral institutions?
1g Do you feel that increased collaboration between the IMF and World Bank has improved the delivery of technical assistance and reduced duplication?

2 Nature of Cooperation in Conditionality
2a To what extent would you agree that the IMF and World Bank teams have made a greater effort at increasing collaboration in designing conditionality over the last two years?
2b To what extent would you agree that collaboration has resulted in:
   (i) Fewer conditions in the respective program/operation;
   (ii) Conditionality more attuned to your country's implementation capacity;
   (iii) Conditionality more sensitive to social and political concerns;
   (iv) A greater and better focus on the critical reform issues for your country;
   (v) Covering most of the key areas;
   (vi) Helping you implement your reform program.

3 Implementation of Conditionality
3a Do you agree that the timetable for implementation of key measures is realistic?
3b Do you agree that IMF and World Bank policies for granting waivers has sufficient flexibility to:
   (i) Give due consideration to the impact of exogenous unexpected factors?
   (ii) Take into account the adoption of corrective (or substantially equivalent) measures?
   (iii) Be applied in a coordinated manner in both institutions?
4  **Coverage of Conditionality**

4a  To what extent is there duplication of conditionality in the program/operation supported by each institution?

4b  What do you see as the main reasons for duplication of conditionality, if any?
   (i) measure considered critical to both programs,
   (ii) difficulties in timing/phasing of condition,
   (iii) insufficient collaboration between IMF/World Bank,
   (iv) other; please specify.

4c  If conditionality misses critical areas and has gaps, what do you see as the main reasons for those gaps?
   (i) measure not considered critical to either program,
   (ii) difficulties in timing/phasing of condition,
   (iii) condition too controversial or unacceptable,
   (iv) condition set by other multilateral or bilateral donors/creditors,
   (v) other; please specify.

5  **Factors of Collaboration**

Looking at the overall process of IMF/World Bank collaboration in your country, how much have the following factors contributed to effective collaboration?

(a) Existence of a consistent country-owned development strategy;
(b) Country driven collaboration;
(c) Consistency of views;
(d) Clarity and complementarity of division of labor;
(e) Complementarity of intervention instruments;
(f) Coordination on areas of shared responsibility;
(g) Timeliness of collaboration;
(h) Communications culture of the institutions;
(i) Relations between country teams;
(j) Joint mission(s);
(k) Formal arrangements for collaboration (PRGF/PRSP, HIPC);
(l) Incentives for, resources and commitment to collaboration;
(m) Structural/institutional framework: decentralization vs. centralization, internal structure and processes;
(n) Other (please specify).

6  In provided text box please add any other comments on your experience with IMF - World Bank collaboration. (You may expand the box as necessary.)
B.  SURVEY OF IMF MISSION CHIEFS AND WORLD BANK COUNTRY DIRECTORS

1  Division of Labor. To what extent do you think that the IMF and the World Bank:
   1a have developed a shared perspective on the necessary reforms?
   1b demarcated a clear division between the two institutions?
   1c sufficiently covered important reform areas?

2  Ownership by authorities
   2a Was the design of the program aligned with the country's own development strategy (PRGF/PRSP if relevant)?
   2b If the program deviated from the country's initial development strategy, do you feel that the authorities ended having ownership of the program and its conditionality?
      If not, please indicate reasons.

3  Discussions with authorities
   3a Did negotiations with the authorities lead to modifications in program objectives and/or conditions relative to staff's original plans, as spelled out in the briefing paper (IMF) or the concept note (World Bank)?
   3b If substantive modifications were made, were these due to: (i) new information, (ii) unforeseen factors, (iii) role of another IFI or bilaterals, or (iv) authorities' insistence?
   3c Do you think that (a) the IMF and (b) the World Bank are flexible in formulating measures to take account of comments from the authorities, the other institution, or bilaterals and other IFIs?
      (a) IMF.
      (b) World Bank.

4  Information Sharing. To what extent do you typically receive/provide pertinent information, comments, and technical input from/to your counterparts at the IMF or the World Bank (e.g. key parameters of the IMF macro program/analysis on structural areas) in a timely manner?
   4a Receive? If not received, state the main reasons.
   4b Provide? If not provided, state the main reasons.

5  Nature and Extent of Cooperation in Conditionality
   5a What has been the extent of your involvement in the formulation of the other institution's conditionality?
   5b If any involvement, how effective has this involvement been?

6  Other Institution's Program Conditionality
   6a What is your view about the other institution's timetable for implementation of key measures?
   6b What is your view about the other institution's enforcement of conditionality that was considered critical to your program?
6c What is your view about the other institution's coverage of policy areas requiring reform? Please specify main areas, if any.

7 Duplication of Conditionality
7a To what extent is there IMF/World Bank duplication of conditionality in overlapping areas?
7b What are the main reasons for IMF/World Bank duplication, if any?
   (i) measure considered critical to both programs,
   (ii) difficulties in timing/phasing of condition,
   (iii) other; please specify.
7c To what extent is there duplication of conditionality in overlapping areas between the Bretton Woods institutions and that from bilateral or other IFIs?
7d If conditionality misses critical areas and has gaps, what do you see as the main reasons for those gaps?
   (i) measure not considered critical to either program,
   (ii) difficulties in timing/phasing of condition,
   (iii) condition too controversial or unacceptable,
   (iv) condition set by other IFIs or bilaterals,
   (v) other; please specify.

8 Review Process. As part of the other institution's internal review process of draft Board documents:
8a have you been typically invited to comment and/or communicate?
8b have your views been taken into account?

9 IMF/World Bank Annex
9a Do you agree that the IMF/World Bank Annex is a useful process for collaboration?
9b How onerous was the preparation of the IMF/World Bank Annex for your team?
9c Have you collaborated with the staff of the other institution in the process of preparation of the IMF/World Bank Annex?
9d Would you consider it more useful if the IMF/World Bank Annex were prepared as a joint product?
9e Would you consider useful a common standardized template of a joint IMF/World Bank Annex?

10 Factors of Collaboration
10a Looking at the overall process of IMF/World Bank collaboration in your country, how much have the following factors contributed to effective collaboration?
   (i) Existence of a consistent country owned development strategy;
   (ii) Client driven collaboration;
   (iii) Agreement on coherent policy framework;
   (iv) Clarity and complementarity of division of labor;
   (v) Complementarity of intervention instruments;
(vi) Coordination on areas of shared responsibility;  
(vii) Timeliness of collaboration;  
(viii) Frequent dialogue, info sharing, communication;  
(ix) Composition and relations between country teams;  
(x) Joint mission(s);  
(xi) Formal arrangements for collaboration (PRGF/PRSP, HIPC);  
(xii) Incentives for, resources and commitment to collaboration;  
(xiii) Structural / institutional framework: decentralization vs. centralization, internal structure and processes;  
(xiv) Other (please specify).

10b Looking at the overall process of IMF/World Bank collaboration in your country, how much have the following factors **impeded** effective collaboration?  
(i) Lack of or inconsistent country owned development strategy;  
(ii) Client driven impediments / lack of client leadership;  
(iii) Disagreement on coherent policy framework / no corresponding program by other institution;  
(iv) Division of labor not clear and roles not complementary;  
(v) Intervention instruments too different form one another or not complementary;  
(vi) Lack of coordination on areas of shared responsibility;  
(vii) Timeliness of collaboration / internal timetables;  
(viii) Infrequent dialogue, lack of communication and info sharing;  
(ix) Composition and relations between country teams;  
(x) Lack of joint mission(s);  
(xi) Deficient formal arrangements for collaboration;  
(xii) Lack of incentives for, resources and commitment to collaboration;  
(xiii) Structural / institutional impediments: decentralization vs. centralization, internal requirements;  
(xiv) Other (please specify).

11 In provided text box please add any other comments on your experience with Bank-Fund collaboration. (You may expand the box to the right as necessary.)
C. QUESTIONNAIRE TO EXECUTIVE DIRECTORS

As an additional input for the Bank-Fund collaboration paper, Executive Directors were invited to express their views regarding their own experiences, rating the questions below on a scale from 1 (strongly disagree/very poor) to 4 (strongly agree/very good):

1. Do you agree that the Bank-Fund Annex is a useful instrument to communicate staff views?

2. To what extent does the Annex prepared by the IMF/World Bank staff meet the following criteria?
   (a) overall quality of reporting;
   (b) focus on the division of labor between the IMF and the World Bank and identification of the lead agency.

3. To what extent does the Annex prepared by the IMF/World Bank provide an overall picture of the coherence of program design and conditionality across the two institutions?