REPORT OF THE EXTERNAL REVIEW COMMITTEE ON BANK–FUND COLLABORATION

Final Report

February 2007

Committee Members

Pedro Malan (Chair)

Michael Callaghan

Caio Koch-Weser

William McDonough

Sri Mulyani Indrawati

Ngozi Okonjo-Iweala

Contents

Attachment 1: Press Release by IMF Managing Director and World Bank President announcing formation of External Review Committee

Attachment 2: The Committee's invitation for comments

Attachment 3: The Committee's meetings with Bank and Fund management and staff

The Committee would like to acknowledge the assistance and cooperation it received from the management and staff of the International Monetary Fund and the World Bank. In particular, it would like to thank Mark Allen (Director, Policy Development and Review Department, International Monetary Fund) and Danny Leipziger (Vice-President, World Bank).

Glossary

FSAP	Financial Sector Assessment Program
HIPC	Heavily Indebted Poor Countries Initiative
IBRD	International Bank of Reconstruction and Development
IDA	International Development Association
IMFC	International Monetary and Financial Committee
JSAN	Joint Staff Advisory Notes
MDG	Millennium Development Goals
PRSP	Poverty Reduction Strategy Papers
The Bank	The World Bank
The Fund	The International Monetary Fund

Executive summary

Conclusions

- Past statements and guidelines on Bank–Fund collaboration have originated from developments in the global economy that posed new challenges for the institutions and how they work together.
- Rapid change in the global economy will continue. While globalization, in particular, has brought many benefits, it has also introduced new challenges. The world is increasingly integrated and the impact of macroeconomic cycles and shocks can be rapidly transmitted across countries.
- The increased integration of economies and the emergence of many global issues beyond the traditional flow of goods, services and capital place a premium on the need for international cooperation and international institutions. These issues include the impact of global warming, energy security, the spread of communicable diseases, and demographic changes.
- The Bank and the Fund are the only international financial institutions with near universal coverage. They have an important role to play in helping countries obtain the benefits of globalization as well as handle the pressures it creates. But they should not merely react to developments in the global economy. Ideally, they should be ahead of the curve and be innovative and proactive in helping members address the challenges from globalization. The operating environments of the Bank and the Fund are now more complex, with their resources representing only a small fraction of the total flow of capital. In addition, the Fund's income is under pressure.
- Particular challenges facing the Bank and Fund include:
  - facilitating the orderly reduction in unprecedented global imbalances in an increasingly integrated world;
  - responding to the needs of emerging markets that are becoming global players, although some are still vulnerable and face large development challenges;
  - helping accelerate progress on developing and achieving the Millennium Development Goals against the background of an expected increase in aid and the number and diversity of donors, with consequent challenges in terms of donor coordination;
  - contributing to global issues such as the economic implications of global warming, the quest for energy security, demographic pressures and health pandemics;
  - reforming governance arrangements so that the representation of countries reflects their relative weight in the global economy, the voice and

representation of low-income countries is enhanced, and the leadership of the two institutions is appointed on the basis of merit rather than nationality.

- Close collaboration is vital because, while the Bank and the Fund have separate mandates, they are inherently linked. For instance, macroeconomic stability (a major Fund concern) will not be sustained unless linked to supply side measures and improved quality of public spending (a major Bank concern). Similarly, global monetary stability (a Fund concern) will have a direct bearing on overall development prospects (a Bank concern).

- The increasing integration of economies and complex links between major challenges place extra importance on the need for close cooperation between the Bank and the Fund. Collaboration enhances the efficiency of both institutions, which is essential if they are to respond to existing and future challenges.

- The cost to members of poor collaboration is significant: Bank and Fund resources and those of member countries are wasted; poor and conflicting advice is given; and there will be gaps in meeting the needs of members. Moreover, even if overall collaboration between the two institutions is good, any shortcomings in how the Fund and Bank are working together to assist a particular country may pose a significant cost to that country. There is also a cost to all donors from poor Bank–Fund collaboration. In responding to the challenges of globalization, the Bank and the Fund will have to use their resources as efficiently as possible and free up resources to undertake new or expanded activities.

- There are many examples of good collaboration between the Bank and the Fund and there have been significant improvements over the years. Good examples of collaboration involve the Financial Sector Assessment Program (FSAP), the Heavily Indebted Poor Countries (HIPC) Initiative, debt sustainability analysis and framework, and Reports on Standards and Codes. However, there is scope for further improvement in how the two institutions work together.

  – There is currently no robust dialogue between the Bank and the Fund as they consider their future strategies and the implications this may have for how they work together.

  – Bank staff expressed concerns over directions in the Fund's medium-term strategy, particularly the role of the Fund in low-income countries and the division of responsibilities over financial sector issues. Yet there was little evidence of the two institutions discussing whether these concerns are well founded and, if so, how they could be resolved.

  – The fact that 'fiscal space' (that is the scope for a government to undertake additional growth enhancing expenditure) was raised as a source of tension indicates shortcomings in the level of collaboration.

  – Some of the best examples of cooperation occur when both institutions have essentially been mandated to pursue joint products or where borrowing and recipient countries have the capacity to identify and get what they see as the best that the two institutions have to offer.

- Some of the existing joint committees are focused more on resolving differences of opinion and disputes rather then proactively identifying how the two institutions can better work together.

- Problems can occur when collaboration is left to the initiative and judgment of individual Bank and Fund officers. While personalities always influence the extent of cooperation in any setting, collaboration between the Bank and the Fund cannot be solely determined by the nature of individual personalities.

- There are shortcomings in collaboration between the two Executive Boards and they sometimes send the wrong signals to staff.

• Poor communication results in coordination problems, but it is usually a symptom of more fundamental problems. The leadership and management of an institution are critical factors influencing the quality and extent of communication and, in turn, collaboration.

• Structural, procedural or cultural differences between the Fund and the Bank may raise issues for facilitating collaboration, but they should not be used as an excuse for any shortcomings in collaboration. Moreover, these differences may be part of the strengths and complementarities of the two institutions. For example, the Bank's decentralized structure poses challenges for the Fund in collaborating with the Bank, but the Bank's regional and country presence provides an opportunity to gain a deep understanding of the circumstances of different countries.

• If the sentiments expressed in past agreements and reviews on collaboration had been observed, there should now be minimum problems in terms of how the two institutions work together. But as noted, there is scope for further improvement. Something is missing**.**

• There needs to be a stronger culture of collaboration grounded in the recognition that the Bank and the Fund have shared objectives and must rely on and trust each other, along with stronger incentives to collaborate. Importantly, each institution must perceive the other as being an equal partner, rather than perceiving itself to be 'first among equals'. Collaboration is much more than co-existing and not standing on each other's toes. It is the recognition by all parties involved that working together will enable them to achieve a collective result that they would be incapable of accomplishing by working alone. If such a culture is firmly established, this should be the last time an external committee would need to examine Bank–Fund collaboration.

Recommendations

1. Strengthening the culture of collaboration – the role of Governors, Boards and management

• To meaningfully strengthen a culture of collaboration will not come solely by identifying and implementing processes that attempt to promote cooperation. It ultimately depends on leadership and accountability – Bank and Fund Governors, Executive Boards and managements must set the example and they must lead.

- As a signal of the importance of collaboration there should be a special joint meeting of the International Monetary and Financial Committee (IMFC) and the Development Committee to consider the External Review Committee's report and reinforce why and how the two institutions must collaborate and rely on each other to meet the challenges of the twenty-first century.

  This should involve a meeting of 24 Governors, not 48. Each country and constituency should determine whether they will be represented at this joint meeting by their Bank or Fund Governor (where they differ). This alone may encourage greater collaboration in capitals, particularly between Finance Ministries/Central Banks and Aid/Development Ministries. If the members of the IMFC and Development Committee could not 'voluntarily' limit membership at this joint meeting to 24, (which would be most unfortunate), then amendments may need to be made to the Board of Governor's Resolutions with respect to the IMFC and Development Committee.

- A standing Bank–Fund Board working group should be established to actively promote and monitor collaboration. The Deans of the Bank and Fund Boards should assist the President and Managing Director in reviewing Board procedures to promote stronger collaboration, including introducing a more cooperative approach to considering joint Bank–Fund staff papers.

- More far-reaching changes to Board composition and interaction should be considered in the context of the current review of Fund quota and representation.

  - Any future change in the size and composition of the Fund Board may need to be reflected in the IBRD Board, but representation on the IDA Board could differ from that on the IBRD Board, and be aligned more with the interests of the major IDA donors and IDA eligible borrowers. This may lead to a separately constituted IDA Board (rather then the current situation where IBRD Executive Directors serve ex-officio as IDA Directors) and would strengthen the role of the Board vis-à-vis IDA Deputies. Currently there is formally a separate, but not a differently composed, IDA Board. A separately constituted IDA Board would be an extension of the current arrangements where IDA borrowers have been invited to take part in IDA donor replenishment negotiations so as to ensure that IDA policies are responsive to country needs and circumstances.

  - Wherever possible, there would be advantages in the same Director being on the Board of both the Fund and the Bank (or IBRD Board). This would facilitate collaboration between the two institutions as well as helping ensure Directors are focused on more strategic issues.

- The dialogue between management and senior staff in both institutions needs to continue to be strengthened, with the objective of seeing how the two can more effectively work together and strategically deal with their future agendas. While regular meetings are important and should continue to take place between senior staff throughout the Bank and Fund, the objective should be for an even stronger informal, ongoing dialogue and there should be no hesitation to 'pick up the telephone'.

- The Bank has recently produced a number of strategic documents covering specific aspects of its operations, and regularly prepares a medium-term strategy document to support its annual budget process. Before long, these processes should provide the basis for an overarching, longer-term strategic assessment of the Bank's operations.

2. Staff exchanges

- Staff interchange between the Fund and the Bank should be encouraged and any impediments in terms of different remuneration and retirement arrangements should be resolved. The message to staff should be that time spent in the 'other' institution is considered favorably and eventually the convention should be that, wherever possible in terms of their professional discipline, staff moving into senior positions will have worked 'on the other side of 19th Street.'

- Collaboration should be a big part of staff performance assessments in both institutions.

3. Moving forward – a new Understanding on Collaboration

- The Committee does not recommend revising the 1989 Concordat on Collaboration (which was not a good name to begin with). It was a negotiated statement with ambiguity in parts of the text as a basis of reaching agreement. The time has come to move on. While statements alone will not ensure good collaboration, the development of a new 'Understanding on Collaboration', prepared in the context of a close and ongoing dialogue focused on the implications of the medium-term strategies of each institution, would be a signal of the importance members and management place on collaboration. Ideally, this could be an outcome of a joint IMFC/Development Committee meeting and should be a resolution by Governors.

  Such an Understanding should establish a high-level framework on how the institutions should work together and the responsibilities of management in promoting good collaboration. The details and processes on enhancing cooperation would be fleshed out at the operational level. The unfolding of the processes for enhancing cooperation, which will primarily be the responsibility of the Executive Boards and management of the two institutions, should be a 'living', ongoing exercise, and not a document that is prepared and then forgotten.

- The Committee does not support the view that improved collaboration can be reduced to a trade-off between a better demarcation of responsibilities or greater emphasis on working together. Both are required. Part of establishing a better partnership involves clarifying as far as possible who is responsible for what.

- The delineation of lead responsibilities should not be based on a country's income level (for example, the Fund taking responsibility for middle-income countries and the Bank for low-income countries). Rather, the delineation should be around central issues rather than countries, and the involvement of the Bank or Fund in a country should depend on a country's views of its needs and circumstances and the relative expertise of the institutions.

4. Cooperation on crisis management

- The Bank and the Fund must ensure that they have learnt from the past and work together more effectively in responding to future crises. Work should be undertaken on how they would collaborate in responding to hypothetical crises – that is, they should undertake 'war games'. In addition, the design and implementation by the Bank and the Fund of new or expanded financing facilities and liquidity instruments to help countries face shocks should complement rather then duplicate each other.

5. Collaboration on fiscal issues

- There needs to be improved integration and harmonization of work on fiscal issues. As noted in the joint 2003 staff review of Bank–Fund Collaboration on Public Expenditure Issues, the key to an effective partnership on public finance management is not found in a formal division of roles, but in the harmonization of recommendations.

- In terms of 'fiscal space', there should be no suggestion that there is a trade-off between short-term stability and long-term growth. These are complementary, not competing, objectives.

- It is essential that there be an integrated Bank–Fund approach to fiscal policy design that integrates the macro and compositional issues in determining stable fiscal positions.

- The Fund cannot focus on macroeconomic stability and the fiscal aggregates, without regard for what is happening at the sectoral level. The Bank is responsible for analyzing the composition of public spending and it is important that the Bank provide the Fund with timely inputs on the efficiency and effectiveness of countries' specific public expenditure programs.

6. The Fund and low-income countries

- The Fund needs to clarify its role in low-income countries and in doing so it should reassess how it can work more cooperatively with the Bank.

  - The Fund's financing activities in low-income countries is an area where it has moved beyond its core responsibilities and moved into activities that increase its overlap with the work of the Bank. The criteria for Fund financing in low-income countries based on the concept of 'protracted balance of payments need' is so vague as to be difficult to distinguish from development finance in practice.

  - While the intensity of the Fund's engagement in countries with a program is welcomed by the Bank, it may be adversely affecting the extent of the Funds' involvement with low-income countries outside of a program.

- The disbursements and new commitments of PRGF assistance have fallen sharply in recent years. This development provides the opportunity for the Fund to clarify its ongoing financing activities in low-income countries and to gradually withdraw from providing in practice base line financing to low-income countries over long periods in the context of a 'development' program (through successive Poverty Reduction and Growth Facility programs). This would allow the Fund to refocus its efforts and resources in areas where it has the greater comparative advantage. This would not be a reduction in the Fund's involvement in low-income countries, but a better focusing of its efforts on such activities as macroeconomic assessments, and policy advice, as well as the 'sign-off' on Bank program lending and the provision of relevant technical assistance.

- The introduction of the Policy Support Instrument, a non-financial instrument for low-income countries, is an important development that can facilitate the gradual withdrawal of the Fund from long-term financing in the absence of a *present* balance of payments need. The expectation is that with the Policy Support Instrument available alongside Poverty Reduction and Growth Facility arrangements, an increasing number of countries will opt for the non-financial instrument. This will be contingent on creditors and donors no longer insisting on the existence of a financial (lending) arrangement with the Fund as a signal that necessary adjustments are under way. The provision of 100 per cent debt relief to eligible HIPC Initiative countries also provides an opportunity to reassess the Fund's role. No longer providing long-term finance would not alter the Fund's role in providing short-term balance of payments financing (although such financing may need to be provided on concessional terms).

- Work on macroeconomic stability and the aggregate effects of aid, including increased aid flows, must take into account what is happening at the sectoral level. The Fund should rely on the Bank for sectoral assessments. Continued close collaboration on debt sustainability assessments is vital given the expansion in the volume and source of funds available to low-income countries.

- The Bank, the Fund and other development parties should agree on what issues are 'macro-critical' for each country and who is responsible for what (including in the context of Country Assistance Strategies/updates).

- The Joint Implementation Committee on low-income countries needs to be revitalized, with a focus on proactively promoting collaboration and a dialogue on countries and the appropriate exchange of information. The Bank, not the Fund, should be the main body assisting countries in donor coordination. Effective coordination is not a synonym for cross-conditionality.

- The need for a Joint Staff Advisory Note (JSAN), its form and the resources required to prepare it should be responsive to the circumstances facing each country. While excessively bureaucratic processes should be avoided, it is important that there be effective coordination between the Bank and the Fund such that there is a constructive engagement in support of a country's strategies. Strengthening the review function of the Poverty Reduction and Economic Management (PREM) unit in the World Bank would allow it to more effectively work with the Policy Development and Review Department in the Fund in terms of facilitating collaboration between the two institutions in their dealings with low-income countries.

7. Collaboration on financial sector issues

- As with all aspects of the operations of the Bank and the Fund, the delineation of areas of responsibility for financial sector issues should be based on the comparative expertise of the institutions, along with the views of the country, and not based on a country's income levels. The Committee endorses the Independent Evaluation Office recommendation that the Fund take the lead where there are significant domestic or global stability issues, and the Bank take the lead where financial sector development issues are paramount. For example, if the financial sector issues facing a country relate to the soundness and stability of the financial system, macro-financial linkages, balance sheet and other risk analysis of systemic importance, capital account liberalization or channels of transmission of implementing monetary policy, these are within the expertise of the Fund and it should take the lead. Similarly, where a country's needs extend to institutional issues that are not key to broader financial stability concerns, such as banking system reform, capital market development or specialized lending institutions focused on specific 'development' objectives, such as agricultural and small to medium enterprise lending and institutions, these are issues where the Bank should take the lead.

- The Financial Sector Liaison Committee should be given an elevated status, with its mandate widened to promote collaboration on all financial sector issues, including being specifically empowered to better coordinate technical assistance to member countries.

8. Technical cooperation

- The Bank and the Fund need to better coordinate the delivery of all forms of technical assistance. The objective of technical assistance should be on capacity and institution building in the recipient country and must be responsive to the needs of the country. Whether technical assistance is provided by the Bank or the Fund should depend on the relative expertise of the institutions. There should be no 'distortions' in either the demand or delivery of technical assistance as a result of different funding arrangement, nor the 'pricing' of technical assistance by either institution. It would be appropriate to advance beyond the term 'technical assistance' and to embrace the concept of 'technical cooperation', in recognition that it is a two-way flow with benefits to both the provider and the receiver.

9. Procedural changes

- Both the Bank and the Fund should make procedural changes to promote more effective collaboration. For example:

  - Since the Bank has responsibility for analyzing sectoral aspects of public expenditure, and the Fund should have regard to the quality of public expenditure when considering fiscal aggregates, it is essential that the Bank is in a position to provide the Fund with timely advice, for example, through undertaking Public Expenditure Reviews.

  - The Bank has to be more flexible in mobilizing resources so that it can support countries' requests for technical assistance in a more timely manner.

- The Fund has to be in a position to provide the Bank with comprehensive macroeconomic assessments of all countries, including small economies and micro-states, and not only those with a Fund program.

- There are procedural changes that members can take. For example, for either institution to share confidential information with the other requires the consent of the information provider. In order to facilitate collaboration, members should readily consent to the sharing of information with the other institution.

10. Monitoring progress on collaboration

The management of the institutions should report periodically to their Boards and, together with the joint Board Committee on Collaboration, to the Governors on progress and issues in implementing the Understanding on Collaboration covering all relevant aspects.

Section 1 Future challenges for the global economy and for Bank–Fund collaboration

1.1 Continuing changes in the global economy

Over the 61 years of existence of the World Bank (the Bank) and the International Monetary Fund (the Fund) there have been many memoranda, statements and reviews on the issue of collaboration, with the first such statement being produced in 1966. These originated from developments in the global economy that posed new challenges for the institutions, led to changes in the range of their activities, and exposed tensions in how they work together. But while it is important to learn from the history of Bank–Fund collaboration, the focus should now be on the future. Specifically, what evolving world economic environment will confront the Bank and the Fund, what future demands are likely to be placed on them, and what are the implications of these changes for the way the two institutions work together?

Two general factors that will influence the activities of the Bank and the Fund in coming years are helping countries and the global community respond to the consequences of globalization; and helping accelerate progress on developing and achieving the Millennium Development Goals (MDGs) in the context of new and more complex aid architecture.

Globalization has brought enormous benefits in terms of overall growth and economic efficiency. Unprecedented financial flows and trade in goods and services have helped countries promote and sustain economic development and poverty reduction. Yet while the increasing integration of the global economy has brought many benefits, it has also made it more complex and introduced significant challenges. These include having to adjust to rapid changes in commodity prices and consumer demands, as well as changes in comparative production advantages and the relative importance of economies. Another particular challenge facing the international community is the need to achieve an orderly reduction in unprecedented global imbalances. These challenges must be faced in an environment where the impact of macroeconomic cycles and shocks can be rapidly transmitted across countries. The Asian financial crisis in the late 1990s demonstrated the impact of sudden capital reversals and financial spillovers, as well as how financial sector instability can lead to macroeconomic stability and a build-up in private sector liabilities can impact on the stability of the public sector.

The increasing integration of the global economy is not limited to the traditional flows in goods, services and capital. Climate change and the accompanying impact of global warming affect all countries and pose significant risks to the global economy. Energy security is another critical international issue, with the risk that competing powers may seek to lock up resources to the detriment of open, transparent and liquid markets. There is also the challenge of aging societies, with significant implications for global labor and capital markets.

A particular challenge facing the international community is to accelerate progress on the development agenda, with a focus on the poorest countries. The MDGs set out aspirations for poverty reduction, human development and environmental stability, as well as establishing benchmarks to assess progress. The international community has agreed to significant further debt reduction for the poorest countries and to a substantial increase in aid, including a doubling of aid to sub-Saharan Africa by 2010. There is also a commitment to enhance the effectiveness of aid. However, the aid architecture is becoming more complex, with 'new' lenders who are not members of the traditional official donor community. In addition, there has been significant growth in non-government donors.

1.2 Future pressures on Bank–Fund collaboration

There is no shortage of critics of the Bank and the Fund, with some questioning the ongoing relevance of these Bretton Woods Institutions in the twenty-first century. However, with globalization leading to greater integration between countries, the need for global institutions to help countries adjust and benefit from the forces of change is more important than ever before. While global financing conditions have been relatively benign in recent years, it is likely that many countries will continue to need help in mitigating and managing a variety of potential economic shocks. Moreover, the challenges facing the global economy can be addressed only through enhanced international cooperation and institutions, and mechanisms are necessary to facilitate this cooperation.

The Bank and the Fund are the only international financial institutions with near universal membership. They must therefore be key players in responding to the increasing integration of the global economy. Ideally, they will be innovative and proactive in helping members respond to the challenges of globalization, rather than merely reacting to events. But they have to fulfill their responsibilities in helping their members in an environment where their financing resources represent a very small proportion of capital flows. By way of illustration, the estimates of private debt flows and net equity flows to sub-Saharan Africa in 2005 are $3.8 billion and $24.7 billion respectively. In contrast, the World Bank's net disbursements to sub-Saharan Africa in 2005 were $3.1 billion. As for the Fund, its position as a source of finance to countries has significantly contracted in recent years, with only 10 non-concessional programs currently in place, five of which are precautionary.

The Bank and the Fund will have to continue to deal with not only a changing international economic environment, but also an uncertain one. If there is but one lesson from history, it is to be prepared for the unexpected. The sharp movement in financial flows has seen countries rapidly move from being seen as having a sound and stable outlook to be facing a crisis. As outlined further in section 2 of this report, unexpected developments in the global economy have posed challenges for the roles of the Bank and the Fund and placed pressures on how they work together. In particular, the integration of the international community has seen the interaction between issues and the difficulty of drawing sharp boundaries in terms of responsibilities. There will be further changes and surprises ahead. This means that forward planning is essential, although it must not be focused on preparing to 'fight the last war', but having the flexibility and institutional structures to be able to rapidly respond to the unexpected.

Some specific issues flowing from the evolving nature of the global economy that the Bank and Fund will need to address include the following.

- What are the respective responsibilities of the Bank and the Fund in facilitating progress towards the MDGs against the background of an expected increase in aid flows accompanied by a larger number of bilateral donors, many of whom are non-government? Who is ensuring that additional assistance is effectively coordinated and aligned with country priorities and that the beneficiaries of debt relief do not again accumulate excessive debt? Can there be better coordination, not only between the Bank and the Fund, but also with other development partners in providing technical assistance? Does the ongoing review of the Bank's work on governance and anti-corruption raise issues for collaboration, given the Fund's involvement in promoting good economic governance, notably in the fiscal and financial sectors? Is there appropriate coordination in promoting the role of the private sector in the development process?

- What are the respective roles of the Bank and the Fund in emerging market economies? Many of these countries still face major challenges of poverty reduction and development, but they are also some of the most dynamic countries and have become global players. Yet vulnerabilities remain and the risk of spillovers is high. They also need to be represented in the Bretton Woods Institutions to reflect their relative economic importance.

- How prepared are the Bank and the Fund to help countries respond to future financial crises? What are the likely sources of future crises? Is there sufficient cooperation between the Bank and the Fund in developing new instruments to handle future shocks? Have they learnt from the past and will they work together more effectively in responding to future crises? Is there sufficient collaboration with the private sector in responding to crises? Collaboration in resolving financial crises has been little tested in recent years.

- Could there be a different or clearer delineation of respective responsibilities and/or leadership roles in financial sector work? For example, the Bank has generally been seen as the leader in providing assistance on longer-term capital market development. But given the importance of capital market developments for financial stability, there is growing Fund interest in this area. How will this be reconciled?

- What are the appropriate contributions of the Bank and the Fund in dealing with such global issues as the implication of aging societies, migration flows and the growing volume of international remittances; responding to the evolution of global energy markets; securing affordable and cost-effective energy supplies while preserving the environment; controlling communicable diseases; and dealing with the implications of a proliferation of bilateral and regional trade agreements against the background of possible prolonged lack of progress with further trade liberalization under a multilateral system?

- What are the implications for collaboration of the movement to reform representation and governance in these Bretton Woods Institutions?

In responding to such issues, it is essential that Bank and Fund resources be used as efficiently and effectively as possible. But while there is a continuing need for these types of global institutions to respond to the pressures coming from globalization, their operating environment is becoming increasingly complex and challenging. Their operations have to be not only highly efficient, but also strategic and focused. They cannot be all things to all people. Both will have to free up resources if they are to undertake new or expanded activities. They must avoid overlapping activities and complement each other rather than compete. For example, both have been trying to respond to the risk of the more rapid transmission of shocks in an increasingly integrated global economy. The Fund has a number of financing mechanisms to help countries facing balance of payments shocks, most recently supplemented by the concessional Exogenous Shocks Facility for low-income countries. It is exploring the introduction of a new contingent financing facility, particularly for emerging markets. The Bank also has facilities specifically designed to help countries facing shocks (such as emergency credits and loans with a deferred draw-down option), and in the past has been ready to accelerate access to standard facilities for these countries. In addition, the Bank is exploring options to help mitigate the impact of external shocks such as commodity price movements and natural disasters. It is essential that the two institutions complement rather than duplicate each other's work in designing and implementing such facilities.

As noted previously, global financial conditions have been relatively benign in recent years, but both institutions have to be prepared to handle the unexpected, including future financial crises. It is important that work is undertaken now on how they would respond to hypothetical new crises – that is, they should undertake 'war games', with the focus on improving collaboration.

It is also essential for the Bank and the Fund to remain focused on their mandates and resist pressure to move into areas only loosely related to their core roles, responsibilities and expertise. The Managing Director's comments about the Fund also apply to the Bank, namely:

> *Without new focus and carefully chosen priorities, the institution risks being pulled in too many directions and losing its relevance to large parts of the membership.*[1]

In responding to the needs of a changing world environment, a particular challenge for the Fund is the substantial reduction in its income as a result of the decline in its financing activities in recent years. In response, the Fund commissioned a committee, chaired by Andrew Crockett, to make recommendations for sustainable long-term financing of its activities. The pressure on the Fund's income places additional importance on ensuring its resources are clearly focused on fulfilling its mandate. But the same applies to the Bank. Most importantly, good collaboration between the Bank and the Fund is vital if both are to deploy their resources as efficiently as possible and, in turn, be in a position to meet the challenges of a rapidly changing global economic environment. There is a resource cost associated with collaboration, but this is outweighed by the costs of poor collaboration, particularly to member countries.

A recent and highly welcomed development is the progress, albeit limited to date, in advancing the Fund's quota and governance reform. The increased global economic weight of the emerging market economies must be recognized in their representation in the Bretton Woods Institutions, and there is also the pressing need to enhance the participation and voice of low-income countries. As changes in Fund quotas are agreed and implemented, there is the strong expectation that there will also be changes in Bank shareholdings. One important element of the reform initiative is the drive to enhance the role and effectiveness of the Bank and Fund Boards. As noted later in this report, the

---

[1] 'The Managing Director's Report on Implementing the Fund's Medium-Term Strategy', IMFC/Doc/13/06/2.

Boards are relevant to ensuring good collaboration between the Bank and the Fund, and far-reaching changes to Board composition and interaction should eventually be considered in the context of the current review of Fund quotas and representation.

1.3 Why collaboration is essential[2]

Past statements, memoranda and reviews on collaboration have noted that close collaboration between the Bank and the Fund is essential if each institution is to fulfill its mandate and serve the interests of its members. This is because the two institutions are inherently linked, even though they have separate mandates. For example, macroeconomic stability (a major Fund concern) will not be sustained unless it is linked with supply side measures and improved overall quality of public spending (a major Bank concern). Similarly, global monetary stability (a Fund responsibility) will have a direct bearing on overall development prospects (a Bank responsibility). For each institution to effectively fulfill all its responsibilities, it must depend on the other. This involves more than just avoiding overlaps between institutions with separate mandates. It means there must be trust that the other is doing its job because they have to rely on each other. The Bank and the Fund are partners, not independent players, and certainly not rivals.

As noted in section 1.2, an increasingly integrated world means that issues are also increasingly interlinked, for example, financial sector stability and macroeconomic stability. Just as issues cannot be readily compartmentalized, nor can the work of the Bank and the Fund.

The cost to members of insufficient collaboration between the bank and the Fund is significant. Duplicating functions wastes the resources of both institutions, something that must be avoided if there are pressures on each to undertake new functions and pressure on the Fund's income. Uncoordinated activities can place unnecessary burdens on members in their dealings with the two institutions. Poor coordination can lead to conflicting, confusing and poor advice to members, along with gaps in meeting their needs. Fundamentally, in order to best serve their members and be efficient and effective, both the Bank and the Fund must work with and rely on each other. Even if overall collaboration between the two institutions is good, any shortcomings in how the Fund and the Bank are working together to assist a particular country may pose significant costs to that country.

---

[2] The *Webster Dictionary* defines 'collaboration' as 1. To work jointly with others or together especially in an intellectual endeavour. 2. To cooperate with or willingly assist an enemy of one's country and especially an occupying force. 3. To cooperate with an agency or instrumentality with which one is not immediately connected. The Committee uses the first of these definitions.

Section 2 Past pressures on Bank–Fund collaboration

2.1 Responding to a changing global economy

There have been many statements and guidelines on Bank–Fund collaboration over the years, usually stemming from developments in the global economy that posed challenges for the two institutions, including how they operate together (see Table 1). For example, in the mid-1960s (most notably in India in 1965–66) the Bank seemed to be taking over some of the functions of the Fund in providing support to a country in a balance of payments crisis, although it was presented as a project loan.[3] This resulted in the first statement of collaboration that formally introduced the idea of 'primary responsibilities' in situations where Bank and Fund functions overlapped:

> *As between the two institutions, the Bank is recognized as having primary responsibility for the composition and appropriateness of development programs and project evaluation, including development priorities … [T]he Fund is recognized as having primary responsibility for exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria and for evaluating and assisting members to work out stabilization programs as a sound basis for economic advance … [T]he range of matters which are of interest to both institutions … includes the structure and functioning of financial institutions, the adequacy of capital markets, the actual and potential capacity of a member country to generate domestic savings, the financial implications of economic development programs both for the internal financial position of a country and for its external situation, foreign debt problems, and so on.*[4]

The 1966 statement was followed with a 1970 memorandum seeking to regularize collaboration by outlining standard practices and procedures. This included the Bank being invited to send a staff member as an observer to Fund Board discussions.

---

[3] James, Harold, *International Monetary Cooperation since Bretton Woods*, Oxford University Press, New York, 1996.

[4] 'Fund–Bank Collaboration', Memorandum to Members of the Executive Board, December 13, 1966.

Table 1: Bank–Fund collaboration

Year	Document	Subject and trigger
1966	Memoranda to the Boards of the IMF and World Bank on Further Steps for Fund/Bank Collaboration	Expansion in the number of new members, efforts by the Bank to strengthen donor coordination on development issues, and experience with individual operations, e.g. India.
1970	Joint Memorandum to the Boards of the IMF and World Bank on Further Steps for Collaboration between the IMF and the IBRD	Increasing number of staff missions. Building on previous memoranda, detailed guidelines on the procedural arrangements for collaboration were produced.
1980	World Bank Document on Structural Adjustment Lending – Collaboration with the IMF	Bank lending for structural adjustment purposes and the increase in the amounts and duration of Fund financial assistance led to a restatement of the division of responsibility, the importance of programs being complementary, and the need for collaboration, especially at the working level between country teams and departments.
1981	IMF Progress Report on Fund Collaboration with the Bank in Assisting Member Countries	These reviews of the practical aspects of collaboration, the latter responding to a call from the G-10 group of shareholders, led to a restatement of the mechanisms for, and importance of, collaboration. These reviews found cooperation to have improved and reaffirmed the need for continued collaboration at the working level in order to minimize possible inconsistencies.
1984	IMF Further Progress Report on Bank–Fund Collaboration	
1985	Memorandum to World Bank Board on Bank–Fund Collaboration	The structural nature of balance of payments problems and the growing debt burdens of many members increased the Bank's focus on growth and adjustment issues and, consequently, the importance of collaboration. This document stressed that substantive, rather than formal, collaboration was needed, i.e. a positive attitude from management and staff at all levels.
1989	Joint Memorandum to the Boards of the IMF and the World Bank on Bank–Fund Collaboration in Assisting Member Countries (The Concordat)	The external debt crises of the 1980s, initiatives from shareholders such as the Baker and Brady Plans, and experience with individual country cases such as Argentina led to the 1989 Concordat. It emphasized the concept of primary responsibility established in 1966 and attempted to clarify operational boundaries, while still recognizing that a broad range of issues was of interest to both institutions.
1992	Joint Document to the Boards of the IMF and the World Bank on Bank–Fund Collaboration on the States of the Former Soviet Union	In order to assist new members from the former Soviet Union, and given the complexity and scale of the transition of these countries to market-oriented economies, the Bank and Fund once more outlined specific areas for collaboration. These included the assessment of economic adjustment needs, coordination of reform programs, coordination with other institutions, and arrangements for mobilizing financial assistance.
1995	Joint Guidance Note on Bank–Fund Collaboration on Public Expenditure Work	Following increased attention on public financial management issues, the Bank and Fund issued new guidance to strengthen such work. For countries where such issues were a priority, Bank and Fund staff should agree on a specific and coordinated work program to address them.
1997	Joint Board Paper on Bank–Fund Collaboration in Strengthening Financial Sectors	Increased concerns that problems in the financial sector could disrupt growth and macroeconomic stability and lead to contagion in other countries led the Bank and Fund to focus on strengthening their collaboration in the financial sector. The Bank was to be primarily concerned with the sectoral and developmental aspects of financial systems, while the Fund's

		involvement was to relate primarily to the macroeconomic and stability aspects. Some overlap was considered necessary, given the interaction between macroeconomic and developmental aspects.
1998	Report to the Interim Committee on Bank–Fund Collaboration	In part drawing lessons from the experience with the Asian financial crisis, this report offered views on Bank–Fund collaboration in general and in the financial sector in particular. While it viewed the broad framework for collaboration as remaining valid, it stressed the need for a culture of collaboration and the role of country authorities, and made some proposals to improve operational procedures.
2000	Statement by the Acting Managing Director to the IMFC on Progress in Reforming the IMF and Strengthening the Architecture of the International Financial.	Following the experience with the Asian financial crisis, several joint Bank–Fund programs were launched, including the Financial Sector Assessment Program, Reports on Observance of Standards and Codes, the Anti-Money Laundering Initiative, and the Combating the Financing of Terrorism Initiative. The Financial Sector Liaison Committee was also established in this context.
2002	Strengthening IMF–World Bank Collaboration on Country Programs and Conditionality, and the Review of the Fund's Conditionality Guidelines	Increased scrutiny of Bank and Fund conditionality, and of the effectiveness of Fund operations in low-income countries, in part led to a revision of the Fund's guidelines on conditionality. This aimed, among other things, to establish a clearer division of labor with other international institutions, especially the Bank, based on the lead agency model.
2004	Progress Report Strengthening IMF–World Bank Collaboration on Country Programs and Conditionality	In reviewing the application of the 2002 guidelines, efforts were made to reinforce the agreed division of labor, and the Joint Implementation Committee was revived as a mechanism for collaboration at the senior staff level.

2.2 Commodity price shocks and debt crises

The commodity price shocks of the 1970s and external debt crises of the 1980s, accompanied by a range of new lending instruments (including the Structural Adjustment Facility/Enhanced Structural Adjustment Facility at the Fund and structural adjustment lending at the Bank) saw a convergence in the operational activity of the Bank and the Fund. The debt crises of the early 1980s resulted in the Baker Plan, which called for a coordinated three-pronged effort involving the Fund, the Bank and commercial banks to assist heavily indebted countries. The successor to the Baker Plan was the Brady Plan, which required the Bank and the Fund to reach coordinated decisions on whether a country qualified for a debt reduction program and provide commensurate support for approved programs.

The Fund's historian, James Boughton, has observed that the various coordination procedures initiated in response to the debt crises did not lead to the two institutions working hand in hand on an agreed strategy. Rather, they were aimed at stopping the staff 'tripping over each others feet when they were responding to the same fire alarms'. However, there was a spectacular failure in coordination in 1988, when the Bank announced a decision to provide finance to Argentina while the Fund was still in negotiations. This was the proximate reason for the much quoted codification of Bank–Fund collaboration in the 1989 Concordat. As Boughton quotes:

> *Even before the dust settled, the Chairman of the Interim Committee, H. Onno Ruding, insisted to Camdessus and to the Bank President, Barber Conable, that they agree on a strategy to avoid a recurrence and submit to the Committee at its next meeting.*[5]

In 1992 the Managing Director and the President issued a joint statement on Bank–Fund collaboration on the states of the former Soviet Union.[6] This memorandum was to guide the staff of both institutions in their work against the background of the complexity and scale of the transition of these countries. It stressed that many decisions on financial and technical assistance would need to rely on the assessments of macroeconomic and structural reform by both institutions.

In 1995 the Managing Director and the President issued a further joint memorandum, dealing with Bank–Fund collaboration on public expenditure work.[7] It followed a review of public expenditure issues by Bank and Fund staff that highlighted a number of areas where collaboration could be enhanced. The focus of the exercise was recognizing that the overall level and composition of public expenditure were key determinants not only of stability, but also for supporting longer-term growth and social development.

---

[5] Boughton, James, *Silent Revolution. The International Monetary Fund 1979–1989*, IMF, Washington DC, 2001, p 1003.

[6] EBD/92/97.

[7] EBD/95/123.

2.3 The Asian financial crisis and the HIPC Initiative

Frictions emerged between the Bank and the Fund during the Asian financial crisis. The Enhanced Structural Adjustment Facility was externally evaluated and there were added demands placed on both institutions with the joint launching in 1996 of the Heavily Indebted Poor Countries (HIPC) Initiative, aimed at reducing unsustainable external debt burdens in low-income countries. The initiative required both institutions to change work practices as it involved more joint missions, shared trigger point conditionality, shared production of documents, and common Board decisions about decision points and completions points. These forces led to a joint report on Bank–Fund collaboration by the Managing Director and President in 1998. Tensions arising from the handling of the Asian financial crisis led to efforts to improve collaboration in the financial sector, with the piloting of the Financial Sector Assessment Program (FSAP) and clarification of the roles and responsibilities of the Bank and the Fund in the *Review of Bank-Fund Collaboration in Strengthening Financial Systems.*[8] A Financial Sector Liaison Sub Committee was established, which was the first standing joint staff committee. Other joint products flowing from the Asian financial crisis and other international developments included the Reports on Standards and Codes, and the Anti-Money Laundering and Combating the Financing of Terrorism initiatives.

International consensus on the MDGs saw increased involvement of the Bank and the Fund in low-income countries. In September 2000 the Managing Director and the President set out a shared vision for closer cooperation in *The IMF and the World Bank Group: An Enhanced Partnership for Sustainable Growth and Poverty Reduction*. Another standing joint staff committee, the Joint Implementation Committee, was established in 2000 to enhance cooperation on low-income countries and facilitate the implementation of the HIPC Initiative. In 2005 the Bank and the Fund agreed on a joint framework for assessing debt sustainability in low-income countries.

2.4 Some lessons

If there is but one lesson from the history of Bank–Fund collaboration, it is that an ever-changing world environment poses new challenges to both institutions and puts pressure on how they operate together. History also demonstrates that unanticipated events have often led to tensions between the two institutions and subsequent attempts to formally delineate their respective areas of responsibility in an effort to address these tensions. But from the first such statement of collaboration in 1966, these responses have generally been a reaction to developments, rather than being proactive and forward looking. Another relevant factor is each institution’s changing perspective of its medium-term future direction, which has led to real or perceived implications of current and future collaboration.

---

[8] SM/98/224(9/2/98).

Section 3 Assessment of current Bank–Fund collaboration

3.1 Good examples of collaboration

It is easy to make a definitive assessment of the collaboration between two institutions if it has completely broken down. But this is certainly not the case for the Bank and the Fund and there are numerous examples of good collaboration and cooperation between the two, with obvious improvements over the years. This was evident in the 2002 and 2004 progress reports on strengthening Bank–Fund collaboration.[9]

Some countries advised the Committee that they did not see many, if any, problems in Bank–Fund collaboration and others indicated that there had been improvements. The FSAPs, HIPC Initiative, debt sustainability analysis and Reports on Standards and Codes were cited as good examples of effective collaboration. There are also recent difficult policy issues(such as the Multilateral Debt Relief Initiative), as well as high profile country cases, where Bank and Fund teams have worked closely together and contributed to achieving an outcome which has been to the benefit of all member countries.

Importantly, it is also evident that the management of the two institutions are actively working towards enhancing collaboration. An example of the commitment by the President and Managing Director is their commissioning of the External Review Committee to review collaboration and recommend what improvements can be made.

3.2 Shortcomings in Collaboration

While there are many examples of effective collaboration, a number of areas for improvement were identified during the Committee's consultations, particularly by Bank and Fund staff. And while the Committee heeded the advice from one country not to overemphasize any identified shortcomings in collaboration, the significant challenges facing both institutions mean that effective collaboration is vital. A particular concern is that the shortcomings identified could compromise the ability of both institutions to meet future challenges.

3.3 Absence of a dialogue in considering future strategies

A notable shortcoming in collaboration is the absence of a robust dialogue between the Bank and the Fund as they consider their future strategies. As noted in section 1.1, globalization is posing many challenges for the Bank and the Fund, as well as presenting them with a more complex operating environment. Sound, strategic management will be required to address the challenges of the twenty-first century. The Fund is implementing its medium-term strategy and refocusing its role in order to meet the challenges arising from globalization. This commendable initiative of the Managing Director was launched in 2005 and covers a wide range of issues, from surveillance, to crisis financing, to internal governance. On the other hand, areas of current and future focus identified by the Bank include lifting growth in Africa; improving governance and tackling corruption; and enhancing the Bank's engagement in middle-income countries. The Bank has recently produced a number of strategic documents covering aspects of its

---

[9] SM/04/57.

operations and regularly prepares a strategy document to support its annual budget process. Before long, these processes should provide the basis for an overarching longer-term strategic assessment of the Bank's operations. Such a review would provide a valuable opportunity for a comprehensive assessment of how the Bank and the Fund can work together to meat the challenges outlined in Section 1.

The Fund acknowledges that putting its medium-term strategy into operation will have implications for the division of responsibilities between the Bank and the Fund, but it appears that it did not discuss this with the Bank. The result is that Bank staff expressed concern to the Committee over what the Fund was proposing; particularly that the Fund may be reducing its role in low-income countries and assuming responsibility for financial sector issues in emerging markets. The Committee believes that many of these concerns are misplaced and would not have arisen if there was an appropriate dialogue between the two institutions. More fundamentally, given that the activities of the two institutions are inherently linked, it is imperative that there should be a close dialogue as they assess their future strategies.

3.4 Some of the best examples of collaboration have been mandated

Another indication that general collaboration could be improved is that some of the best examples of cooperation occur when both institutions have essentially been mandated, often by their shareholders, to pursue joint products, such as Poverty Reduction Strategy Papers, FSAPs, Anti-Money Laundering and Combating the Financing of Terrorism initiatives, and Reports on Standards and Codes. In the absence of specific joint products, and where cooperation is left to the initiative and judgment of staff, problems can occur. There are still many good examples of the staff of both institutions working together – such as engaging in an open dialogue on a country and organizing joint missions, and as noted previously, they have recently worked together to solve complex policy issues and resolve high profile country cases. But it is important to ensure that good collaboration does not depend on the personalities and initiative of the individuals involved. A more systematic appreciation of the importance of collaboration needs to be established and reinforced throughout the Bank and the Fund.

In a similar vein, in a number of cases collaboration at the country level appears to work well when a country's authorities have the capability and capacity to define priorities, implement policies and coordinate the activities of the Bank and Fund. But many low-income countries, in particular micro-states and countries in distress or in a post-conflict situation do not have the capacity to insist on good collaboration between the Bank and the Fund. The reality, however, is that given the dire circumstances facing such countries, particularly those emerging from a conflict, it is paramount that there be the highest degrees of collaboration and cooperation between the Bank and the Fund. A specific concern raised with the Committee by some countries is that one institution may be using the other as a 'shield' or an excuse for a slow response on its part – for example, the Bank saying that it cannot move on financing because it is waiting on a macroeconomic assessment from the Fund, or the Fund saying that its activities cannot advance because it is waiting for action to be undertaken by the Bank. The tendency in these situations is to have collaboration 'mandated' by external bodies, which is not always successful, for ultimately the responsibility for achieving stability and growth must lie with `the country concerned. The question for the Bank and the Fund is how they can help strengthen national ownership and what type of collaboration would be more effective in a particular situation.

3.5 Specific areas where collaboration could be strengthened

A number of specific issues with collaboration were raised with the Committee by either countries or Bank and Fund staff. The Committee was not able to ascertain the veracity of all the issues raised in the time available, but the list is sizeable. But this must be kept in context. The list of shortcomings in collaboration should be balanced against the observation previously noted regarding the many examples of good collaboration and that there has been a notable improvement in recent years. Moreover, it is to be expected that the focus of the Committee's work was on identifying areas for improvement.

With the above qualifications in mind, the range of issues raised with the Committee as to where collaboration could be improved included:

- differing time horizons between the Bank and the Fund;
- the decentralized organizational structure of the Bank versus the highly centralized structure of the Fund;
- the lack of autonomy of Fund resident representatives;
- the Bank's relatively slow mode of analysis and project creation in technical assistance;
- the blurring of the distinction between the Fund's short-term balance of payments lending and the Bank's longer-term development lending, with questions raised about whether the Poverty Reduction and Growth Facility is outside the Fund's core mandate;
- the inflexibility of the Bank in responding to requests from the Fund outside the Bank's Country Assistance Strategy;
- a perception that Bank staff are driven to provide project financing;
- the Fund not readily sharing financial programming data with the Bank;
- the conflicting advice going to countries on public financial management and taxation;
- Bank work on public expenditures (such as through Public Expenditure Reviews) not informing Fund programs and surveillance in a systematic way, due to failures of coordination among country teams;
- Fund advisory services in middle-income countries sometimes overlapping with those of World Bank Treasury, for example, in technical assistance on the Treasury function and capital market development;
- the Bank failing to do enough in certain areas, particularly in politically sensitive situations, such as civil service reform, land tenure reform, pension reform and public enterprises;
- the Fund offering 'arms length' assessments while the Bank pursues a more consultative approach;

- the Bank neglecting to work on countries without significant Bank programs or where the work is not a priority for Bank lending – conversely, in countries without Fund programs the Bank had concerns about obtaining comprehensive macroeconomic assessments;

- the Fund needing to do more upstream analysis of the macroeconomic consequences in low-income countries of poverty reduction strategies at the country level, encompassing issues of scaling up, absorptive capacity, real exchange rates, and related effects;

- the lack of a central revenue administrative function at the Bank, which undermines its capacity to provide consistent and strategic advice on taxation and customs administration;

- the Fund's *Government Finance Statistics* providing inadequate breakdown of expenditure by function, program, and level of government to be used by the Bank in much country work;

- the Fund finding itself involved in areas of Bank responsibility because of Bank neglect, for example, Fund conditionality has extended into Bank areas such as labor markets, health and education where the Bank has not been sufficiently involved;

- mission creep by the Bank into Fund areas while the Bank neglected its own areas of responsibility, and vice versa;

- the Bank having to analyze macroeconomic questions outside the traditional remit of Fund programs and surveillance, such as in areas of macro-financial links, risk mitigation and fiscal federalism;

- the need for improved collaboration on macroeconomic analysis in general, with greater data consistency, the use of broadly similar medium-term macroeconomic assumptions, and consistency between the Fund's short-term macroeconomic frameworks and the Bank's long-term growth assessments;

- the need to clarify the roles of the Bank and the Fund in providing technical assistance, in particular, on financial sector activities;

- with respect to financial sector work, the Bank's belief that the Fund intended to move into areas of technical assistance beyond its traditional focus on macro-critical systemic issues, particularly into fee-based advisory work in areas such as local debt markets, mutual funds, pensions, housing finance and insurance supervision;

- the contrast in technical assistance pricing and delivery mechanism creates an unlevel playing field and can exacerbate Fund mission creep. The Fund has a technical assistance window that provides technical assistance free of charge, through a rationing system. The Bank lacks a self-standing technical assistance window and has a tradition of providing technical assistance via loans, by bundling technical assistance with policy-based or project lending operations, or through 'fee for service' arrangements;

- the failure of the Bank and Fund to coordinate missions and information requests places unnecessary demands on country officials, with both often requesting roughly the same information from members, and missions from each institution meeting with the same government officials – as do other aid and development agencies;

- perceptions that the Fund considered itself more rigorous and disciplined, if not superior, compared with the Bank.

As noted previously, the Committee did not attempt to examine in detail the legitimacy and extent of all the above concerns. Much will come down to particular circumstances and, in certain cases, subjective judgments. Some of the issues raised above may be of limited application and are not representative of the overall working arrangements between the two institutions. However as previously noted, even a relatively isolated instance of poor collaboration may have significant implications for a member country. Consequently while caution is needed in drawing any assessment as to the overall state of collaboration between the two institutions based on the above, the range of issues raised with the Committee was in itself telling.

Section 4 Influences on collaboration

4.1 Varied sources

Various factors influence the extent of collaboration, with a key aspect being poor or inadequate communication. As noted in the 1999 joint Board paper on 'Guidelines on Collaboration between the Bank and the Fund in Financial Sector Work':

> *The most important element of collaboration is frequent and full communication between staff of the two institutions. Where co-ordination problems have occurred, a major cause has been the absence of full communications and information sharing.*[10]

Poor or inadequate communication may not be the only problem, and it may also be a symptom or a consequence of problems elsewhere, rather than the driving cause of inadequate collaboration. Ultimately, and this issue will be pursued subsequently, the way an institution is managed is a critical factor influencing the degree and quality of communication and, in turn, collaboration.

The following factors have also been attributed to influencing collaboration between the Bank and the Fund.

- The memberships having different obligations to each institution. For the Fund, every member must provide the necessary information for surveillance, avoid restrictions on current payments and discriminatory currency practices and consult with the Fund when requested. Such Article IV consultations typically occur every one to two years, with all members – from low-income countries to industrial countries – required to engage in such consultations. In contrast, the Bank does not have a non-lending vehicle for engaging with its members and its engagement is focused on developing countries.

- The Bank and the Fund have different time horizons: The Fund is focused on short-term stability (at least initially) while the Bank's emphasis is on long-term development. This is believed to lead to slower response times by the Bank. It may also reflect the inherent difficulty and broad scope of the Bank's work compared with the Fund – for example, institutional capacity, regulatory environment, governance and a wide range of sectoral work.

- The Bank and the Fund have different organizational structures. Compared with the Bank, the Fund is much smaller, more centralized and is headquarters-based. The Bank is decentralized, which can slow the time taken to respond to requests from the Fund and also make it difficult for Fund staff to identify a central counterpart on the Bank side. The centralized decision making structure of the Fund results in Fund country resident representatives having little autonomy, impeding collaboration at the 'in-country' level.

- The internal budgeting arrangements of the Bank and the absence of a separate technical assistance window within the Bank were identified as impeding the ability of the Bank to promptly respond to country requests for assistance.

---

[10] SM/99/158.

Yet while the above factors may affect the extent of collaboration between the two institutions, they also have positive aspects.

- Unlike the Fund, the Bank does not have a non-lending vehicle for engaging with its members, but its activities are highly relevant to all its members. Social and economic development, and the reduction in poverty, is in the interests of all, as are the Bank's activities in responding to global issues such as the spread of communicable diseases.

- The difference in the time horizons of the Fund and the Bank is more about different emphasis rather that separate considerations. It is not possible to focus on short-term stability without any regard to longer-term influences, and vice versa. The macroeconomic frameworks advocated by the Fund cannot be limited solely to short-term stabilization objectives. Achieving and consolidating sustained macroeconomic stability is a medium- to longer-term affair.

- The organizational structures of the two institutions may differ, but they provide the opportunity to combine different relative strengths. For example, the decentralized structure of the Bank may affect the ease of collaboration with the Fund, but being 'on the ground' in countries provides an opportunity for the Bank to gain greater insights into the needs and circumstances countries are facing. Such insights could be highly relevant to improving the Fund's work.

4.2 The spirit of collaboration must be strengthened

While the above factors may affect the extent of collaboration between the Bank and the Fund, there is a more fundamental influence at work. If all the sentiments and procedures to foster good collaboration outlined in past statements and memoranda on collaboration had been followed, there should now be problems in how the two institutions operate together. But there is clearly room for improvement. So what is missing?

In the Committee's view, the 'spirit of collaboration and trust' within the Bank and the Fund needs to be strengthened and embedded in the culture of each institution.

As noted in section 3.5, Bank and Fund staff acknowledged a range of areas where collaboration could be enhanced. But what is surprising is that they do not appear to be active in overcoming these shortcomings. They are not sitting down with their counterparts to determine whether they have a legitimate problem in working together and, if so, identifying how to rectify it. Similarly, to identify organizational differences between the two institutions as a reason for shortcomings in collaboration misses the point. These are problems that must be addressed by better collaboration and not excuses for avoiding it. If there was a strong spirit of collaboration, any shortcomings would be more easily resolved.

As noted above, the Committee's assessment is that there needs to be a strengthening of the recognition in both institutions that their mandates are interrelated. Effective collaboration stems from an awareness by all parties involved that by working together, they will achieve collective results that they would be incapable of accomplishing by working alone. Effective collaboration requires shared objectives, a commitment to joint goals, open communication, mutual trust and respect, intellectual and organizational agility, and the recognition of the complementary nature of the diverse skills and knowledge of all parties involved.

Are these elements evident in the operations of the Bank and Fund? This is an essential question to address, for unless the intrinsic need for close collaboration is recognized, and goes beyond just being acknowledged in statements and memoranda and becomes a central feature of the working environment of each institution, recommendations for further procedural changes to improve collaboration will have limited effect.

There may have been too much emphasis in the past on the fact that each institution has a separate mandate, with not enough attention given to the complementary and interrelated nature of their activities. In many respects, this has been the underlying feature of past problems that have led to initiatives to improve collaboration. For example, in the mid-1960s when the Bank became involved in supporting a country facing a balance of payments crisis, it was motivated by a concern that short-term stabilization policies being pursued by the Fund did not recognize that the balance of payments problems caused by development constituted a long-term and not simply a transitory phenomenon, with the result that short-term stabilizations necessarily imposed an excessive cost.[11] The 1966 Concordat on collaboration recognized that monetary stabilization and growth-oriented structural policies should not be considered in isolation from each other, 'although its attempt to deal with it remained rather on the level of pious sentiment'.[12]

The same forces, namely the interconnection between short-term stabilization and growth-oriented policies, were at play in the efforts to enhance collaboration between the Bank and the Fund in the 1970s, 1980s and 1990s. Where and when collaboration existed, the convergence in the Bank and the Fund's operational activities stemmed from the fact that the economic problems countries faced were seen as fundamentally connected and not to be considered in isolation from each other. As noted in section 1, this trend will continue. To the extent that this is sufficiently recognized, closer and more effective collaboration will follow.

4.3 Concern over fiscal space – a false dilemma

A development which would suggest that there is still some way to go in recognizing that the issues being pursued by the Bank and the Fund cannot be considered in isolation from each other is the debate over 'fiscal space'. This was raised by both institutions as an issue in terms of collaboration.

Fiscal space refers to the scope for a government to undertake additional growth enhancing or poverty reducing expenditure, while maintaining macroeconomic stability and debt sustainability. The Fund is responsible for analyzing and helping countries with the aggregate aspects of public sector spending and revenues, while the Bank has primary responsibility for helping countries with the composition and efficiency of public expenditure. Concern was expressed about divergent approaches of the Bank and the Fund in terms of 'fiscal space'.

---

[11] James, p 143.

[12] James, p 144.

Bank staff indicated that the Fund's focus on establishing and maintaining macroeconomic stability constrained both growth enhancing investment in capital outlays and spending on reducing poverty. Bank staff were concerned that, without fuller collaboration within a clearly established framework, Fund advice to governments on fiscal stance does not pay adequate attention to the growth effects of expenditure composition and efficiency, contributing to a contractionary bias in fiscal policy design. At a minimum, the Bank proposed that Fund targets for aggregate fiscal balance incorporate assessments of the likely effect on revenue and expenditure composition to alert authorities to social, distributional or growth consequences.

The Fund acknowledged that differences of view can emerge when it comes to questions of fiscal space, given that concerns about demand management are the responsibility of the Fund while questions about the quality of spending, particularly related to investment, are the responsibility of the Bank, and issues of debt sustainability a shared interest. Fund staff felt that the Bank was sometimes too involved in fiscal space estimates and the Bank indicated that there was more room for public spending consistent with macroeconomic stability.

The concern expressed over fiscal space is a false dilemma and is similar to the same concern raised in the mid-1960s which resulted in the recognition, on paper at least, that short-term stabilization and growth-oriented policies cannot be considered in isolation. This was also recognized in the 1995 joint guidance note on collaboration on public expenditure work. In fact, if the sentiment expressed in the 1995 note was applied, there should not be any issue about whether each institution has a different take on 'fiscal space'.

It may be that, in a given country, it could be shown empirically that it is possible to (a) increase the efficiency of public expenditure; (b) enhance revenues in an efficient way; (c) receive public debt relief or undertake additional borrowing on reasonable terms; and (d) obtain additional flows of concessional aid. Then it would go without saying that the pre-existing overall budget constraint should not be seen as a hard constraint or even as a (temporary) softer budget constraint, for there is 'fiscal space' for certain additional expenditure deemed to be desirable – 'fiscal policy for growth and development'. This may be the situation for a particular country, but it has to be carefully and empirically analyzed on a case-by-case basis. It is not a new approach, a new conceptual development or, even less, a new theory. It has to be applied in country-specific situations, and not by assertion on the basis of a general proposition. It is in this sense that apparent differences of view over fiscal space sometimes give the impression of posing a false dilemma.

The Committee keeps coming back to the recurrent theme running through the history of efforts to improve Bank–Fund collaboration: the fact that the objectives of the two institutions are inherently linked. As previously noted, macroeconomic stability (a major Fund concern and not a short-term affair) will not be sustained unless it is linked to and accompanied by supply side measures that enhance long-term growth and development (a major Bank concern). Hence Bank staff are correct in noting that fiscal policy needs to look beyond stabilization and must consider the consequences for growth. Similarly, Fund staff are right in emphasizing that it is first necessary to achieve and then maintain macroeconomic stability as a foundation for growth. If fiscal space is seen as a source of tension in relations between the two institutions, it is an indication of shortcomings in the collaboration between them, for short-term macroeconomic stability and longer-term growth should not be seen as competing objectives: they are complementary. The Fund cannot focus on the aggregates without regard for what is happening at the sectoral level. The fact that the Bank is responsible for analyzing the composition of public spending highlights that the Fund must rely on input from the Bank. Thus it was of concern that Fund staff indicated that the Bank needed to undertake more timely analysis of the quality of public spending and the public spending priorities needed to achieve growth. This indicates problems in working together in pursuit of shared objectives.

In moving forward, it is essential that there be a more integrated Bank–Fund view on how the level, composition and efficiency of both public expenditure and taxation affect economic growth and the inter-temporal budget constraint. This requires a significant improvement in the knowledge of the interactions between public expenditure, taxation and growth. In summary, fiscal policy design must integrate the macro and compositional issues in determining sustainable fiscal positions – which requires close collaboration between the Bank and the Fund with each institution focusing on its areas of relative expertise. For example, the Bank should provide timely inputs to the Fund on the efficiency and effectiveness of specific public expenditure programs and both institutions should work together in assessing the medium and long term impact of fiscal policies on growth. Furthermore, the expansion of activities in public expenditure work in recent years reinforces the need for improved Bank–Fund collaboration. The scope of the work in public expenditure now ranges from policy and budget formation, through budget execution and accountability, to service delivery and development impact.

Section 5 Establishing a culture of collaboration and trust

5.1 Leadership and accountability – role of Governors

How can a culture of close collaboration and trust be embedded within the Bank and the Fund? While processes to facilitate a better dialogue and cooperation can be identified, as they have in previous reviews on collaboration, whether they work or not ultimately depends on leadership, appropriate incentives and accountability. Processes alone will not lead to improved collaboration. Bank and Fund members should expect their management to actively pursue close collaboration and ensure that the resources under their control are used as efficiently as possible. And management should be held accountable for its performance. But the Governors of the Bank and the Fund should set the example in terms of promoting a good dialogue between the two institutions to advance collaboration.

The importance of close collaboration (which does not mean cross-conditionality) should figure prominently on the agendas of the International Monetary and Financial Committee (IMFC) and the Development Committee. This should involve more than just endorsing the importance of collaboration in a communiqué. What is required is a robust examination of why the mandates of the two institutions are linked, why they must rely on each other, and why close collaboration is essential if they are to meet the challenges of a changing and increasingly integrated global economy. Such an examination should directly address the fundamental interconnection between short-term stabilization and growth-oriented policies, something that has been central to concerns over collaboration throughout the history of the two institutions.

The Development Committee is formally a joint committee of the Board of Governors of the Bank and the Fund 'on the transfer of real resources to developing countries' (as it was expressed when the Development Committee was established in 1974). Notwithstanding the existing joint nature of the Development Committee, a signal of the importance that the Governors of the Bank and the Fund place on collaboration could be achieved through a special joint meeting of the IMFC and the Development Committee to discuss the findings of the External Review Committee's report and, specifically, establish why the two institutions must rely on each other to meet the challenges of the twenty-first century. However, a combined meeting of up to 48 Bank and Fund Governors would not be efficient or conducive to achieving meaningful outcomes. The existing membership of 24 for each meeting is already too large. It is recommended that there be a special joint IMFC/Development Committee meeting, but limited to attendance by 24 Governors, co-chaired by the chairs of the IMFC and the Development Committee. Where Governors in the Bank and Fund differ, it would be up to countries and constituencies to decide which Governor would attend. This may in itself promote greater collaboration in capitals, particularly between finance ministries/central banks with development ministries. Currently the Resolution that established the IMFC and the Development Committee contain explicit provisions that entitle all IMFC or Development Committee members to attend the respective meetings of these committees. As noted, in advancing the 'spirit of collaboration', it is to be hoped that each of the 24 members/constituencies in the Fund and the Bank that appoint the members of the IMFC and Development Committee agree to be represented at the joint meeting by the same individual as its member on both committees. If such a voluntary arrangement could not be achieved, which would be most unfortunate, then amendments may need to be made to the Board of Governor Resolutions dealing with the committees.

5.2 Leadership and accountability – role of Executive Boards

The Executive Boards of the Bank and the Fund should focus on ensuring that the two institutions are working together as closely as possible and setting an example in terms of good collaboration. Here there is scope for improvement. In fact, the Boards should be the prime catalysts in encouraging close collaboration, not only in terms of monitoring the performance of staff and management, but leading by example. However, the extent of collaboration between the two Boards is currently limited, as was acknowledged by both Boards. It is not unknown for very different views to be expressed by an Executive Director in the Fund and an Executive Director in the Bank, even though they represent the same country or constituency. Concerns were also raised over the timing of each Board's consideration of joint staff documents, including whether there was scope for one Board to amend a joint paper after it had been approved by the other Board. Further, shortcomings in coordinating administrative and procedural arrangements between the two Boards were identified.

Over the years there have been numerous joint Board working groups on the general issue of collaboration, as well as joint working groups on specific topics, such as the procedures for appointing the Managing Director and President and the arrangements for joint annual meetings. A range of proposals or initiatives have been canvassed to enhance general collaboration between the two Boards, including meetings, retreats, the President meeting with the Fund Board and the Managing Director meeting with the Bank Board, joint visits and lunches. Notwithstanding the considerable discussion on the topic, little tangible progress in improved collaboration between the two Boards is evident.

The 2004 report of the Joint Working Group of Executive Directors on Enhancing Communication and Collaboration between the two Boards (chaired by Mr Masse, the then Canadian World Bank Executive Director) considered why previous informal working groups between the two Boards had not been more successful. The Masse report noted that:

> *While various factors were identified, including the ad hoc and very informal nature of the Working Groups and the lack of appropriate support from management and the Secretary's offices, more generally there was a view that the most important reason was a lack of a shared perspective by Executive Directors that there were matters of importance to be addressed where there could be value-added from such a group. Therefore, for a new group to be more successful there would need to be a shared view amongst Executive Directors of the value-added to be derived from such a group.*

The Masse report recommended establishing a standing joint working group of Directors to focus on institutional or governance issues of joint interest or concern. This was seen as the most promising area of collaboration and, depending on the experience with the working group, it was suggested its mandate could expand to cover global and thematic as well as specific country issues. The Fund Executive Directors, however, did not support establishing a new standing joint working group, and suggested that small ad hoc joint working groups of Executive Directors be established when needed to resolve specific issues as they arose. In short, they endorsed the status quo.

This experience highlights the extent of the change in attitudes required if there is to be true collaboration between Bank and Fund Boards. The Masse report correctly identified that procedural steps to enhance collaboration, such as establishing joint working groups, will be effective only if there is a spirit to make them work – namely, recognition that collaboration is needed and that improved collaboration will be beneficial. While it remains to be seen whether the proposed standing joint working group of Directors would add value, the reaction of Executive Directors to the Masse report suggests a lack of recognition of the essential importance of collaboration and that steps are necessary to improve communication and cooperation. The status quo should not be an acceptable option given current world conditions. The fact that the two Boards continue to reach separate and inconsistent conclusions on issues, and that they do not appear to be making tangible efforts to improve communication and collaboration, does not set a good example to staff and undermines the authority of calls by the Boards for better staff collaboration.

The Committee endorses the recommendation of the Masse report and believes that there would be value in a standing joint Bank–Fund Board working group to monitor progress on collaboration between the two institutions (any such working group would not have decision making authority and would only make non-binding recommendations to the two Boards.). The Deans of each Board should take the lead in encouraging and facilitating close collaboration. But as noted above, a joint working group of Directors will not be effective unless the Directors of both Boards fully recognize the importance of collaboration and want to make the working group work. Nor will it work unless each Board is recognized to be of equal standing by the other. Hence, as preparation for the proposed joint IMFC/Development Committee meeting on collaboration, both Boards should examine in depth why close collaboration is essential if the Bank and the Fund are to meet the challenges of the twenty-first century, along with any role the Boards should play in advancing good collaboration.

Another highly relevant aspect of the Fund's medium-term strategy is the work associated with improving the efficiency of the Board's operations. This should be an important aspect of the current initiatives to reform the Bretton Woods Institutions for, as noted earlier, if the Boards were performing their responsibilities, they should be the main catalyst in promoting close collaboration. Executive Directors should not be involved in managing day-to-day operations, but should be setting strategic directions and overseeing management performance within this strategic framework. Executive Directors should be posing to management the right questions, demanding the answers and holding management accountable for their performance.

The size and composition of the Boards are closely linked to the evolution of voting shares. In terms of the Bank, an issue that may need to be considered as part of the review of Fund quotas and Board representation is whether there should be a split between the composition of the International Bank of Reconstruction and Development (IBRD) Board and the International Development Association (IDA) Board (there are four Boards representing four institutions of the World Bank Group, including the IBRD and IDA, but in practice the same individuals are usually on all four Boards. Under the IDA Articles of Agreement, IBRD Executive Directors serve ex-officio as IDA Executive Directors). The composition of the IBRD Board may be the same as that of the Fund Board and reflect the relative global economic weight of countries. However, the composition of the IDA Board should, ideally, be aligned with the importance of IDA donor countries as well as appropriately recognizing the interests of IDA eligible borrowers. This would be an extension and formalization of the current arrangements whereby IDA borrowers are invited to IDA donor replenishment of IDA resources to help ensure that IDA's policies are responsive to country needs and circumstances. Moreover, the voting power of countries and Directors varies between the IBRD Board and the IDA Board, notwithstanding that the same individuals are on both Boards. As part of the general move to more appropriately align representation within the Bretton Woods Institutions and enhance the voice of low-income countries, the time may come when the interests of donor and borrowing countries should be explicitly acknowledged in the composition of the IDA Board.

Another option that could be considered as part of the reform initiatives is to have, wherever possible, the same Director serve on Fund and Bank (IBRD) Boards (as is currently the case where the Executive Directors from France and the United Kingdom serve on both Fund and Bank Boards). Having the same Director on Fund and Bank Boards should improve collaboration between the two institutions. But there is the added advantage that increasing the functions and responsibilities of Directors would reduce the opportunities and tendency to become too involved in managing and force them to be more strategic in their considerations and more efficient in the operations. Of course, whether the Boards fulfill their responsibilities will depend on the capability of Directors, something that is within the control of member countries.

5.3 Leadership and accountability – role of management and staff

The management of the Fund and Bank has to take the lead and be held accountable by the membership for ensuring that the two institutions work in a cooperative and reinforcing manner. A good personal relationship between the President and the Managing Director will facilitate collaboration between the two institutions. They should meet regularly to discuss and decide on issues of common interest, but their interaction should not be limited to scheduled meetings and there should be an ongoing close dialogue. This is the case with the current President and Managing Director who have a good working relationship and are committed to improving collaboration. It is also essential that there be a close dialogue between senior staff throughout the Bank and the Fund (for example, between the Fund's Deputy Managing Directors and the Bank's Managing Directors; the Director of the Policy Development and Review Department in the Fund, and the Vice-President, Poverty Reduction and Economic Management in the Bank; area department heads in the Fund and country directors in the Bank; and so on). Regular meetings between management and staff in each institution are desirable, but there should be no hesitation in 'picking up the telephone' at any time. Regular meetings should not be procedural, but as outlined further in section 6, in terms of the Financial Sector Liaison Committee and the Joint Implementation Committee, the focus should be on identifying how the two institutions can work closely together and ensuring that required measures are implemented. It is particularly important that the collaboration by management and senior staff of the two institutions be seen in specific and consistent activities and not limited to statements of intent. In particular, there must be shared views and strategies and a common broad message going to national authorities and staff. The Committee's assessment is that the degree of dialogue between senior staff of the two institutions has been increasing and deepening. This has facilitated the recent resolution of some difficult policy issues. Nevertheless, there is no room for complacency.

At the most senior level, the Managing Director and President should report to Governors, under the direction of the Executive Boards (for example, through the IMFC and the Development Committee) on the state of collaboration between the Fund and the Bank, and the steps being taken to ensure they are cooperating. Department heads in both institutions should be assessed by management on the extent to which they have actively pursued collaboration, not only in the context of mandated joint projects, but in all their activities. Department heads should be expected to identify how the complementary responsibilities of the two institutions can be combined for maximum effectiveness, and not simply limited to resolving or avoiding conflicts. While the 1998 report by the Managing Director and President on Bank–Fund collaboration noted that staff performance assessments should take account of collaborative efforts, this does not appear to figure prominently in the performance assessment of all staff. This must change so that the incentive structure in each institution encourages collaboration.

Staff interchange can play an important role in improving understanding and facilitating cooperation. While it is appropriate for staff remuneration policies, including pension schemes, to take into account the circumstances facing each institution, it is also important to have arrangements that facilitate and encourage staff secondments between the Bank and the Fund. The Committee believes that the message to staff from management should be that time working in the other institution will be looked upon favorably when considering promotion. In time, there should be the expectation that, wherever possible in terms of their professional discipline, staff moving to senior levels in either institution have spent some time working 'across 19th Street'.

5.4 Delineating Bank and Fund responsibilities

Past reports on Bank–Fund collaboration have attempted to delineate the responsibilities of each institution, although always acknowledging that sharp lines of demarcation cannot be drawn and there are areas of shared interest. There continue to be calls for a clearer delineation of responsibilities. For example, the Fund staff Working Group Report on implementing the Fund's medium-term strategy recommended, with respect to low-income countries, that the Committee on Bank–Fund collaboration develop the appropriate division of responsibilities at the institutional level, decide on reporting procedures, and propose modalities to settle inter-institutional disputes.[13]

Overall, two broad approaches to advancing Bank–Fund collaboration were raised during the Committee's consultations. These can be summarized as the 'demarcation' school, which involves establishing a clearer delineation of responsibilities between the Bank and the Fund; and the 'partnership' model, which proposes that the overlapping nature of each institution should be accepted and the focus be on advancing processes to work together across the mandates of both. In the Committee's view, these are not alternatives; both need to be pursued because the Fund and the Bank cannot work without each other.

The difficulty in determining a rigid division of labor is that many Bank and Fund activities are inherently linked and therefore complementary. But this does not mean that there should not be attempts to more clearly focus the activities and responsibilities of each. For each institution to use its resources as efficiently and as effectively as possible, it must concentrate on the activities where it has the comparative advantage. Moreover, for any partnership to be effective there must be as clear an understanding as possible as to who is responsible for what. In the case of the Fund and the Bank, this

[13] SM/06/114.

should be done not on the basis of attempting to cordon off areas of exclusive responsibility, but in full recognition that it is not possible to draw sharp lines of responsibility, and that the two institutions must rely on each other. The objective should be to determine which agency has lead responsibility for an issue in order to facilitate cooperation.

The Committee does not support moves to delineate responsibilities based on income levels of particular countries, for example, the Bank taking responsibility for low-income countries while the Fund is responsible for middle-income countries. The delineation should be around issues rather than countries, and the involvement of the Bank or Fund in a country should depend on a country's circumstances and the relative expertise of the two institutions in meeting the specific needs of that country.

As outlined in section 2, past statements and memoranda on Bank–Fund collaboration, starting with the 1966 agreement, have included a broad outline of the areas of responsibility of each institution – the Fund focusing on macroeconomic stability while the Bank's focus is on growth and development. This same general principle should apply to any attempt at achieving a 'cleaner' delineation of responsibilities, although as emphasized throughout this report, with the full recognition that stability and growth cannot be considered in isolation from each other.

The joint 2003 staff review on Bank–Fund Collaboration on Public Expenditure Issues suggested that effective partnership on public financial management is achieved through harmonizing advice and coordinating upstream recommendations and downstream execution, rather than formally dividing roles. The approach, developed under the collaborative Public Expenditure and Financial Assessment framework, should provide a basis for harmonizing advice and technical assistance by the Bank and the Fund as well as bilateral partners. The Committee believes that this is the appropriate arrangement for, as noted in section 4.3, it is essential that there be an integrated Bank–Fund approach to fiscal policy design that integrates the macro and compositional issues in determining sustainable fiscal positions. It is also important that arrangements to advance collaboration on issues be extended beyond a narrow Bank–Fund coordination focus. With the emphasis now on country ownership, it is important that Bank–Fund collaboration be considered in a wider context that incorporates the perspectives of country authorities and other donors.

Section 6 outlines some observations by the Committee on delineating responsibilities of the Bank and the Fund with respect to low-income countries, work on financial sector issues, and the provision of technical assistance. These were specific areas of tension for Bank–Fund collaboration raised with the Committee. However, it would not be appropriate for an external party to attempt to specify in detail the areas of responsibilities of the Bank and the Fund. Given the interlinkages between their mandates and operations, determining which institution will take lead responsibility on what issue and in what countries must come from a close dialogue between the two to identify areas of ongoing cooperation.

Because the Bank and the Fund must rely on each other, it is essential that there is trust between the two institutions and confidence that each is doing its job. Fund staff acknowledged that the Fund has become involved in areas beyond its mandate because they believed these areas were critical to growth but no other agency, particularly the Bank, was taking the lead. Similarly, Bank staff expressed concern about obtaining comprehensive macro assessments on low-income countries where the Fund does not have a program. Such situations are not consistent with recognition of mutual dependence between the activities of both institutions and the fact that they must collaborate. It is particularly undesirable and an inefficient situation if one institution feels it has to duplicate the work of the other because it doubts the competence of the other's output, or did not like the results produced or doubted whether they would be provided on time. Effective partnerships are built on trust and good communication. It is the responsibility of the Executive Boards and the management of each institution to ensure that it is doing its job and working in partnership with the other.

5.5 Is there a need for a 'new' concordat on collaboration?

The Committee was requested to consider whether the much quoted 1989 Concordat on Bank–Fund collaboration should be revisited. The short answer is 'no'. As noted subsequently, the 1989 Concordat (which was not a good name to begin with) was a negotiated statement, with ambiguity in parts of the text being the basis for reaching agreement. The view was expressed to the Committee that this ambiguity was constructive, providing the institutions with the necessary flexibility. An alternative view, however, is that the ambiguity has not provided a useful basis for constructive collaboration.

A redrafting of the 1989 Concordat by itself will not have a significant impact on improving collaboration, particularly if undertaken by an external body. Collaboration cannot be imposed on institutions. To repeat the main observation of the Committee, what is required is to strengthen the culture of collaboration across all levels of the Bank and the Fund so that the sentiments in the Concordat and similar statements are applied on the ground, and problems or uncertainties about the two institutions working together more effectively are resolved quickly.

It is time to move forward rather than revisiting the 1989 Concordat. In doing so, the term 'concordat' should be dropped, given the inference that it is a negotiated peace settlement. The Committee recommends that a new 'Understanding on Collaboration' should be initiated, involving an open dialogue between the Governors, Boards, management and staff of both institutions. The focus of this understanding would not be an attempt to delineate the separate independent activities of the Bank and the Fund, but to outline why they must work together and to identify where they will take responsibility and cooperate in order to achieve common objectives. This would not only be a signal of moving forward, but would also signal the importance the leadership of the Bank and Fund place on collaboration. This could be reinforced if this understanding 'flowed' or was part of both institutions examining their strategies and directions in order to meet future challenges. Collaboration should be an integral part of the planning of both institutions and an understanding could be an outcome from the special joint IMFC and Development Committee meeting as recommended earlier in this section.

The part of the 1989 Concordat dealing with the respective responsibilities of the Bank and the Fund is not clear.[14] The Concordat states that among the Fund's purposes is the 'promotion of orderly economic growth with reasonable price stability, overseeing the

---

[14] SM/06/114.

international monetary system, most notably exchange rates, and making its resources available to shorten the duration and lessen the degree of external disequilibrium'. On the other hand, the Bank has 'the objective of promoting economic growth and conditions conducive to efficient resource allocation, which it pursues through investment lending, sectoral and structured adjustment loans … In these areas, except for the aggregate aspects of the economic policies mentioned in the previous paragraph, the Bank has a mandate, primary responsibilities, and a record of expertise and experience'.

James Boughton notes that allocating responsibility for the 'aggregate' aspects of economic policy to the Fund was an attempt to placate those in the Bank who wanted to retain a role in assessing macroeconomic policies. He described the phrase 'aggregate aspects of macroeconomic policy' as being peculiar and ambiguous. As he notes:

> *No one could say definitively what it meant, and all efforts to make it more precise failed. It provided the Bank with an excuse for asserting independence with respect to advice on lending conditions on whatever it might characterize as non-aggregative, and it provided the Fund with a reaffirmation of its macro policy, but in fact it was little more than an implicit acknowledgement that the institutions would continue to disagree.*[15]

It would appear that a main objective of the 1989 Concordat was to placate the interests of both institutions. A new Understanding on Collaboration could address what is seen to be the ambiguity of the 1989 Concordat by spelling out the interconnection between the Bank and the Fund and that, in focusing on their respective areas of major concerns and responsibilities, each must rely on the input of the other.

5.6 A new Understanding on Collaboration would have to be supported by procedural changes

An important aspect flowing from a new Understanding on Collaboration should be procedural changes that enhance the capacity of each institution to work as cooperatively as possible. For example, since the Bank has responsibility for sectoral aspects of public expenditure, and has unchallenged expertise in this area, and the Fund should have regard to the quality of public expenditure when considering fiscal aggregates, it is essential that the Bank have the capacity to provide (and does provide) the Fund with timely advice on such matters (such as through Public Expenditure Reviews). There should not be situations where the Fund believes it must engage in areas beyond its expertise because the Bank cannot provide timely input. As noted previously, the different time horizons or organizational structures of the two institutions should not be used as an excuse for poor coordination. The Bank should identify if it needs to make changes to provide timely and relevant input to the Fund. Similarly, the Fund has to be in a position to provide the Bank with comprehensive macroeconomic assessments on all countries, including all low-income countries and micro-states, and not only those that have a program with the Fund. As noted further in section 6, the absence of a separate technical assistance funding window in the Bank has limited the speed with which it can respond to countries' needs, whereas the Fund has

[15] Boughton, James, *Silent Revolution*, *The International Monetary Fund 1979–1989*, IMF, Washington DC, 2001, p 1004.

the capacity to move quickly in providing technical assistance. The Bank needs to change its operations to ensure it can provide more timely assistance to countries in areas where it has the relative expertise. By way of another example, appropriate information should flow between the two institutions. If the Fund is reluctant to pass information to the Bank because it has concerns about whether information obtained in-confidence will be distributed too widely, then processes need to be implemented to remove such concerns.

5.7 A new understanding should be a 'living' process

A new Understanding on Collaboration should not be presented as the definitive statement on collaboration, for it is impossible to make such a statement. Moreover it should not be a document that is prepared then largely forgotten until another periodic review is conducted. Rather, it should launch a 'living' process whereby collaboration is seen as a central feature of the ongoing operations of the two institutions. The Understanding of Collaboration that would be endorsed by Governors should be a high-level framework on how the two institutions will work together, with the explicit expectation that it will be fleshed out at the operational level. It should not attempt to reproduce the detail in the 1989 Concordat and subsequent documents. The Understanding should clearly establish that both Bank and Fund management have the responsibility for working together. It should also make clear that there is no trade-off between macroeconomic stability and long-term growth: these are not competing objectives, but are complementary. As noted earlier, there would be merit in this high-level understanding being a resolution by Governors rather than a memorandum by the heads of the two institutions. What should flow from such a high-level statement are more detailed discussions and agreements (which would essentially replace the detail contained in the 1989 Concordat and subsequent documents) on how the two institutions will work together to pursue specific issues, including in specific countries.

6 Collaboration in low-income countries, financial sector issues and technical assistance

6.1 Low-income countries

Interaction between the Bank and the Fund is most intensive in low-income countries, necessitating the highest degrees of collaboration. That said, the issues raised in both institutions' dealings with low-income countries are relevant to their relations with other developing countries. It is the Committee's assessment that the Fund's work on low-income countries is an area where pressures, including pressures from shareholders, have led it to move beyond its core responsibilities into the work of the Bank.

As part of its medium-term strategy, the Fund is seeking to achieve a more focused role in low-income countries. This is highly appropriate for, as noted above, the Committee's impression is that the Fund has become unfocused in this area and has spread itself too thinly across development-related work. Any re-examination of the Fund's role in low-income countries should look at how it should work with the Bank in such countries.

6.2 Fund should rely on the Bank for sectoral assessments

One of the pressures driving the Fund beyond its core responsibilities is the recognition that its work on macroeconomic stability and the aggregate effects of aid and debt relief cannot be separated from what is happening at the sectoral level. This is correct, but it does not mean that the Fund should become involved in work on sectoral issues. This is the Bank's area of responsibility and the Fund should rely on the Bank for sectoral assessments.

The Fund has had numerous reviews of its role in low-income countries, which generally conclude that its core areas of responsibility include macroeconomic stabilization, monetary, fiscal and exchange rate policies, institutional arrangements and related structural measures; and financial system issues. These are seen to be 'growth-critical' areas. In practice, however, the Fund has moved into areas beyond its core responsibility because they were also considered growth-critical, becoming involved in issues such as civil service, land and energy sector reforms; privatization; property rights; and judicial reforms. These areas should be the responsibility of the Bank.

As noted in section 3.5, a justification for the Fund moving into non-core areas was that these areas were growth-critical but were not receiving appropriate attention from the Bank. This is an inefficient outcome. Rather than the Fund moving into areas that are the responsibility of the Bank, the Bank, the Fund and the specific country, along with other relevant development partners, should agree on what issues are macro-critical or growth-critical. In addition, there should be agreement on who is doing what based on areas of expertise. As noted in section 5.6, internal organizational factors, such as delays in providing advice or budget considerations, should not be reasons for failing to collaboratively respond to addressing growth-critical issues or why one institution has to move into another's area of responsibility.

As also noted in section 3.5, Bank staff expressed the view that it was difficult to obtain comprehensive macroeconomic assessments on low-income countries that did not have a program with the Fund. They also stated that they would not like to see the Fund withdraw from providing finance to low-income countries because a program was one way of ensuring the Fund's engagement in these countries. This suggests shortcomings in the Fund's surveillance activities in low-income countries outside of a program. If this is the case, these shortcomings need to be addressed in order to improve collaboration.

The appropriateness of the Fund's long-term financing arrangements (through successive PRGF programs) with low-income countries needs to be addressed. While the Fund notes that it does not see evidence of PRGF operations 'crowding out' Fund surveillance in other low-income countries, it is possible that the intensity of a program arrangement may be adversely affecting the degree of the Fund's involvement outside of a program, to the detriment of collaboration with the Bank. In addition, given the pressure for 'adjustments' to occur within the life of a program, this may be contributing to the Fund preparing excessively optimistic short-term to medium-term growth projections and the problem of reconciling these with long-term projections prepared by the Bank. Furthermore, the existence of a long-term program by its very nature draws the Fund into issues beyond its mandate and into the territory of the Bank. To the extent that this occurs, limited Fund resources are being distracted from pursuing its core responsibilities. As was previously noted, resources will have to be released from somewhere if the Fund is to undertake new or expanded activities, such as improving its macroeconomic assessment of all low-income countries.

Disbursements and new commitments of PRGF assistance have fallen sharply in recent years. In 2005-2006, disbursements averaged SDR 0.4 billion per year or only about half the average annual disbursements during 1990-2004. Moreover, PRGF principal repayments exceeded disbursements in both 2005 and 2006. The 24 new PRGF arrangements during 2005-2006 had averaged annual access of around 12 per cent of quota or about one third of the of the average annual PRGF access. While this issue needs further consideration, the Committee recommends that the Fund should start withdrawing from long-term financing operations in low-income countries. This will take time and an orderly transition will be important. It should not be seen as reducing the Fund's involvement with low-income countries (and not reducing the overall level of financial support for low-income countries). Rather, it is the opportunity to clarify its role in low income countries and to refocus its efforts and resources into areas where it has the greatest comparative advantage – providing macroeconomic assessments and policy advice, as well as 'sign-off' on Bank program lending, technical assistance and short-term balance of payments support. However, before withdrawing from providing long-term development finance, the Fund must ensure it is increasing its efforts in low-income countries in the areas where it has the comparative advantage.

The introduction of the Policy Support Instrument, a non-financial instrument for low-income countries, is an important development for facilitating the withdrawal of the Fund from long-term financing. The expectation is that with the Policy Support Instrument available alongside Poverty Reduction and Growth Facility arrangements, an increasing number of countries will opt for the non-financial instrument. This will be contingent on creditors and donors no longer insisting on the existence of a financial arrangement with the Fund as a signal that necessary adjustments are under way. The provision of 100 per cent debt relief to eligible HIP Initiative countries also provides the opportunity to re-assess the Fund's role. Of course, withdrawing from providing long-term development finance would not alter the Fund's role in providing finance to countries facing short-term balance of payments situations.

6.3 Role of the Joint Implementation Committee

The Committee believes that processes should be established within the Bank and the Fund to proactively enhance collaboration in low-income countries, rather than focusing on resolving differences of opinion and disputes. The Joint Implementation Committee was established in 2000 with the aim of fostering better collaboration between the bank and the Fund in implementing the HIP Initiative. However, it appears to have lost its effectiveness, and was re-established following the 2004 Board Review on Bank–Fund Collaboration. The objective of the Joint Implementation Committee is to monitor progress of the implementation of collaboration on country programs and conditionality and, where needed, help country teams resolve differences. The Joint Implementation Committee still does not appear to be very active or effective. The shortcomings in its effectiveness may come from its focus on resolving disputes. Country offices or teams may be reluctant to refer disputes to the Joint Implementation Committee, which comprises senior officers, for this could be interpreted as an admission of failure.

Rather than establishing a forum with a focus on resolving disputes, it would be preferable if the mandate of the Joint Implementation Committee was directed at promoting collaboration on countries, ensuring that an appropriate dialogue was taking place between Bank and Fund staff on country matters, appropriate information was being exchanged and joint missions were taking place when feasible, and resolving disputes when necessary. In addition, strengthening the review function of the Poverty Reduction and Economic Management (PERM) unit in the World Bank would allow it to more effectively work with the Policy Development and Review Department (PER) in the Fund in terms of facilitating collaboration and consistency between the two institutions in dealing with low-income countries.

6.4 Millennium Development Goals and increased aid flows

An issue has arisen over the relative role of the Bank and the Fund in assessing aid absorption and the levels of aid needed to meet the MDG's. Bank staff emphasized the need for the Fund to undertake upstream analysis of the macroeconomic consequences in low-income countries of poverty reduction strategies, encompassing issues of scaling up, absorptive capacity, real exchange rates and related effects. The concern was that if donors moved ahead without such input by the Fund, financing plans could be later questioned, and possibly deviate from subsequent Fund assessments.

The Fund clearly has the lead for issues associated with how to manage the exchange rate and fiscal and monetary consequences of increased aid flows. As outlined in the Fund's medium-term strategy, it should project if aid flows are consistent with macroeconomic stability. However, any analysis of scaling up requires an assessment of sectoral issues and the appropriateness of public expenditure. This is the responsibility of the Bank, as is assessing the appropriateness of using resources freed up by debt relief. The Fund will need to be aware of how aid resources are being used in order to assess their macroeconomic impact. To do so, it will have to rely on assessments of sect oral programs provided by the Bank and other development agencies. Thus advising on the use and appropriate levels of the scaling up of aid to help countries meet the MDG's will require close collaboration between the Fund, the Bank and other donors. Each has a distinct contribution to make and each must rely on the other.

The Fund should advise donors of the macroeconomic consequences of aid flows, but not take a lead role in donor coordination. This is a responsibility of the government, with the assistance of the Bank.

The expansion in the volume and source of funds available to low-income countries, combined with debt relief, poses new challenges in terms of helping countries avoid accumulating excessive debt burdens. As noted previously, the joint work of the Bank and the Fund in establishing a framework for debt sustainability analysis is an example of good collaboration. It is encouraging that this good collaboration is continuing, as evidenced in the recent joint work in applying the debt sustainability framework for low-income countries post debt relief. Continued strong collaboration on debt sustainability analysis, including its integration into policy advice, and where appropriate conditionality, is needed if there is to be expanded use of the framework, including as a basis for better coordination between creditors, donors and borrowers.

6.5 Future of Joint Staff Advisory Notes

The Poverty Reduction Strategy Papers (Preps) are intended to provide the operational basis for Fund and Bank concessional lending to low-income countries and for debt relief under the HIP Initiative. PRSPs should be prepared by the country and specify the areas where the Fund and Bank would take the lead in advising the authorities.

The extent to which PRSPs achieve this outcome depends on the capabilities of the country authorities and their capacity to take ownership of the PRSP. A contentious aspect that has arisen is the future of the Joint Staff Advisory Notes (JSANs), which are intended to provide staff assessments of the strategies contained in the authorities' PRSPs. The Fund's medium-term strategy proposed to eliminate JSANs to free resources for higher priorities and to have staff reports summarize relevant aspects of the country's poverty reduction strategy. Fund staff claim that JSANs are bureaucratically very resource-intensive because of their joint nature and do not actually encourage serious collaboration. In contrast, the Bank has interpreted the Fund's proposal to eliminate JSANs as a signal that it intends to withdraw from its involvement in low-income countries.

The concerns over the Fund's proposal to eliminate JSANs are another indication of shortcomings in the dialogue between the two institutions. This should not be a contentious issue. The need for a JSAN, its form and the resources required in its preparation should be responsive to the circumstances facing each country. Where a PRSP is clearly the product of a country's efforts, a joint assessment by the Bank and the Fund of the authorities' strategies will be particularly important. The objective behind establishing JSANs is appropriate, although the Committee did not have the information to assess whether the preparation of JSANs is excessively resource-intensive and bureaucratic. If one party believes this is the case, there should be coordination mechanisms to resolve such concerns. What is important is that the country's needs are met, that there is effective coordination between the Bank and the Fund in supporting the country's strategies, and that all partners are accountable for their actions.

6.6 Financial sector issues

Financial sector issues are a shared responsibility of the Bank and the Fund. Financial Sector Assessment Programs (FSAPs) and the production of financial sector Reports on

Standards and Codes are viewed as good examples of collaboration between the two institutions, facilitated through the joint Financial Sector Liaison Committee. The evaluation of FSAPs by the Fund's Independent Evaluation Office indicated that the current joint approach is broadly effective, but the distinctive contributions of the Fund and the Bank need to be clarified. The Independent Evaluation Office recommended that the Fund take the lead where there are significant domestic or global stability issues, and the Bank take the lead where financial sector development issues are paramount. This is an appropriate broad division of responsibilities between the two institutions, although a clear demarcation between stability and development issues is not possible and a pragmatic approach must be taken in implementing the Independent Evaluation Office's recommendations.

An area of contention arising from the Fund's medium-term strategy is the proposal that the Fund's enhanced focus on macroeconomic and financial risks and spillovers would see it taking greater responsibility for financial sector issues in emerging markets, with reduced involvement of the Bank. In response, the Bank noted that not all financial sector issues in emerging markets relate to stability concerns and that financial development issues within the expertise of the Bank are also prevalent. In addition, the Bank noted that it needs to retain an active role in financial sector policy issues in both middle-income countries and low-income countries in order to maintain its expertise and to facilitate knowledge spillovers. This is another area where the perceived problems in terms of Bank–Fund collaboration should be resolved through an open dialogue between the two institutions.

As noted previously, the Committee does not support a demarcation of areas of responsibility between the two institutions based on country income levels. Each institution has expertise in different aspects of financial sector issues and the intensity and nature of their involvement with a member country should depend on the needs of that country. For example, if the financial sector issues facing a country relate to the soundness and stability of the financial system, macro-financial links, balance sheet and other risk analysis of systemic importance, capital account liberalization, channels of transmission of implementing monetary policy, these are mainly the responsibility of the Fund. Similarly, where a country's needs extend to institutional issues that are not key to broader financial stability concerns, including banking system reforms, capital market developments, specialized lending institutions focused on specific 'development' objectives, such as agricultural and small to medium enterprise lending and institutions, infrastructure finance, project lending, or microfinance, these aspects come within the responsibility of the Bank and it should take the lead. When the core interests of the two institutions overlap significantly, the Bank and the Fund will need to take a collaborative, shared approach to the work.

As noted previously, there will be gray areas in terms of determining which institution should take responsibility. However, these should be resolved through a proactive and pragmatic dialogue between the Bank and the Fund. Moreover, a country's preferences cannot be ignored. It may be that on some issues a country would prefer to deal with the Bank, or vice versa. The Independent Evaluation Office evaluation of FSAPs noted the value of joint Bank–Fund FSAP teams, given the synergies that can be obtained from their respective expertise. The Committee believes the collaborative nature of the FSAPs could be undermined if there was a rather arbitrary division of labor across financial sector issues.

The Financial Sector Liaison Committee is reported as having been successful in addressing problems that have arisen in organizing joint FSAPs. To facilitate broader collaboration on financial sector issues, the Committee recommends that the Financial Sector Liaison Committee be given an 'elevated' status. This would include involving the Director of the Monetary and Capital Markets Department in the Fund and the Vice-President (Bank/International Finance Corporation) Private Sector Development, and International Finance Corporation Chief Economist in the Bank, and widening its mandate to cover all aspects of financial sector work undertaken by the Bank and the Fund, including having responsibility for coordinating the delivery of technical assistance. As with the Joint Implementation Committee, the objective of the Financial Sector Liaison Committee should not simply be to resolve disputes, but to actively promote a robust dialogue, the exchange of information and joint planning by the Bank and the Fund.

6.7 Need for better collaboration on technical assistance

Coordination of capacity building and technical assistance has not been as good as it should have been and there is significant potential for conflict and duplication as both institutions step up their support in overlapping areas. For example, collaboration on FSAPs was presented by many as possibly 'best practice' in terms of Bank–Fund collaboration, but it was readily acknowledged that this broke down at the follow-up stage, particularly when assigning technical assistance to countries. That said, it would appear that the Financial Sector Reform and Strengthening Initiative launched in 2002 is an example of the type of coordination that should take place between donors, the Fund and the Bank in delivering financial sector technical assistance.

More generally, there is a need for better cooperation between the Bank and the Fund in delivering technical assistance. In financial sector work, this could be further facilitated by an enhanced mandate for the Financial Sector Liaison Committee. Similarly, the Joint Implementation Committee could be mandated to focus on ensuring greater coordination in providing technical assistance and capacity building in low-income countries. It would also be appropriate to advance beyond the common term of 'technical assistance' and embrace the concept of 'technical cooperation', in recognition that it is a two-way flow with benefits to the giver as well as the receiver.

As also noted in section 5.6, procedural changes must be made within the Bank to enhance the responsiveness of its technical assistance delivery in the absence of an independently funded technical assistance window. The Bank needs to be more flexible in mobilizing trust funds to support countries' requests for technical assistance in a more timely manner. The Committee notes that there are suggestions that the Fund may consider moving to fee-based advisory work. This raises a number of issues, but in terms of collaboration with the Bank, the basic proposition that the Committee would stress is that whether technical assistance is provided by the Bank or the Fund should depend on the relative expertise of the institutions and the needs of the country. There should be no 'distortions' in either the demand or delivery of technical assistance as a result of different funding arrangements or the 'pricing' of technical assistance by either institution.

6.8 Institutional issues

Finally, certain institutional issues are relevant to Bank–Fund collaboration. A number of these have already been mentioned, such as the implication of Fund processes to realign quotas and increase the voice and representation of low-income countries. Similarly, there is a need to ensure that separate remuneration arrangements do not impede staff secondments. The Fund is also seeking to streamline Fund Board procedures and sharpen its strategic focus. A similar process should be undertaken in the Bank, for as noted in section 5.5, better Board procedures and a more strategic focus would greatly help closer collaboration.

Section 7 Monitoring progress on collaboration

The management of the Bank and the Fund should report periodically to their Boards and, together with the joint Board Committee on Collaboration, to the Governors on progress and issues in implementing the Understanding on Collaboration covering all relevant aspects.

Attachment 1: Press Release by IMF Managing Director and World Bank President announcing formation of External Review Committee

External Review Committee on IMF-World Bank Collaboration: Invitation to Comment by September 15, 2006

Press Releases

Free Notification

Receive emails when we post new items of interest to you.

Subscribe or Modify your profile

IMF Managing Director Rodrigo de Rato and World Bank President Paul Wolfowitz Initiate Deeper Measures to Review and Enhance IMF-World Bank Cooperation

Press Release No. 06/65
March 29, 2006

Rodrigo de Rato, Managing Director of the International Monetary Fund (IMF) and Paul Wolfowitz, President of the World Bank Group, have initiated a range of measures to promote a deeper and early review of Fund-Bank collaboration, including the creation of a six-member External Review Committee. The measures initiated by the heads of the IMF and World Bank bring forward by a year, a joint staff review that had been scheduled for 2007, of how the Fund and Bank work together to enhance global economic performance and development.

The newly created Fund-Bank Review Committee will comprise Michael Callaghan, Executive Director of the Australian Treasury's Revenue group and a former IMF Executive Director; Caio Koch-Weser, Vice Chairman of Deutsche Bank, Germany's former Finance Secretary and a former World Bank Managing Director; Pedro Malan, Chairman of Unibanco and a former Minister of Finance of Brazil; William McDonough, Vice Chairman of Merrill Lynch and a former President of the Federal Reserve Bank of New York; Sri Mulyani Indrawati, Indonesia's Minister of Finance and a former IMF Executive Director; and Ngozi Okonjo-Iweala, Nigeria's Minister of Finance and a former Vice President and corporate Secretary of the World Bank Group. Mark Allen, Director of the IMF's Policy Development and Review Department and Danny Leipziger, Vice President of the World Bank's Poverty Reduction and Economic Management Network, will act as advisors to the Committee and facilitate contact between the Committee and the staffs of the two institutions. A Joint Task Force, made up of senior IMF and World Bank staff, has also been created to assist in the review process.

The Review Committee is expected to solicit a representative and broad-ranging sample of views from country members on the nature and practice of Fund-Bank collaboration, which has been guided since 1989 by a formal Concordat between the two institutions.[1] The Committee will present its final report to Fund and Bank management before the end of this year.

The Review Committee is expected to explore whether the areas of primary responsibility in the 1989 Concordat, as updated by subsequent reviews, provide a clear enough foundation for Fund-Bank collaboration. The Committee is also expected to consider whether the established areas of responsibility are consistent with the two institutions' mandates.

"The areas of common or joint interest have increased over time. To what extent is the division of labor mandated by the Concordat and subsequent reviews actually being implemented on the ground?" Messrs. de Rato and Wolfowitz stated. *"In what ways, if*

any, may the demarcation of responsibilities be better applied, altered, or made more precise, in order to achieve more efficient and effective delivery of services to the membership of both institutions?"

The Committee is also expected to determine whether the "lead agency concept" works well, and whether the institutions can be held sufficiently accountable under this approach, while still coordinating their efforts. As part of this review, it is expected that the Review Committee will recommend specific improvements in Fund-Bank collaboration on country work, including on policy advice, lending operations, and technical assistance, and explore how collaboration can be tailored to suit the differing circumstances of the membership, including post-conflict countries, low-income countries, middle-income developing countries, and emerging market economies.

Another aspect of the review will delve into what improvements can be made to Fund-Bank collaboration on thematic work, including on financial sector issues (Financial Sector Assessment Programs), trade policy, Standards and Codes, debt sustainability analysis in low-income countries, the Poverty Reduction Strategy Paper (PRSP) process, growth prospects, donor coordination, and implementation of the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative.

Attachment 2: The Committee's invitation for comments

On July 5 2006 the Chairman of the Committee sent the following letter to all Governors of the Fund and the Bank.

July 5, 2006

Dear Governor:

External Review Committee on IMF-World Bank Collaboration

On March 29, 2006 the Managing Director of the International Monetary Fund and the President of the World Bank announced that they had commissioned a six-member External Review Committee to examine areas of Fund-Bank collaboration and to propose improvements. Details of the full membership along with background to the Committee are contained in the attached press release.

In undertaking its review, the Committee is canvassing views from relevant stakeholders on the practice and nature of Fund-Bank collaboration as well as suggestions for improvements.

In your capacity as a member of the Board of Governors for the Bank and/or the Fund, the Committee would greatly appreciate any input you would care to make on Fund-Bank collaboration. In particular, we would appreciate comments on the two questions outlined below.

The Committee is scheduled to complete its report by the end of 2006, with a progress report being provided at the Annual meetings in September. This is a relatively tight timeframe, so we would greatly appreciate receiving any comments you may have by 7 August 2006.

Question 1. Considering the current and prospective international environment, the position of your country and the challenges facing the Bank and the Fund, do you believe there are any significant issues in Fund-Bank collaboration and or division of labor/roles that deserve special attention?

Question 2. If your country has had active involvement with the Fund and the Bank, could you let us know whether you or other members of your government have any problems related to collaboration and or division of labor/roles between the Bank and the Fund in regard to their activities in your country?

Yours sincerely,

Pedro Malan
Chairman of the Committee

Responses were received from the following countries:

Argentina	Hungary	New Zealand
Australia	Indonesia	Norway
Bahrain	Iran	Oman
Belgium	Iraq	Peru
Brazil	Italy	Philippines
Burundi	Japan	Poland
Chile	Jordan	Qatar
China	Kenya	Serbia & Montenegro
Colombia	Kiribati	Slovakia
Croatia	Korea	South Africa
Czech Republic	Kuwait	Switzerland
Denmark	Lebanon	Tajikistan
Dominican Republic	Libya	Tonga
Egypt	Lithuania	Turkey
Estonia	Malawi	Uganda
Finland	Maldives	United Arab Emirates
France	Moldova	United Kingdom
Germany	Namibia	United States of America
Ghana	Nepal	Vanuatu
Haiti	Netherlands	Yemen
		Zambia

The Committee also invited comments on the web page of the Fund and Bank.

Comments were received from the following institutions and individuals:

Sender	**Organization**	**Country**
Ossi Rahkonen	Individual	Finland
Temina Madon	Individual	..
Prof. Piyush C Sharma, PhD	Individual	India
Michèle Obringer	Individual	France
Raphael Cohen (GS)	Academe	Switzerland
Ronald B Brinn	NGO	..
M Shah Jahan Bhatti	Individual	..
Vanel Beuns	NGO	USA
Denis	Individual	..
Ivan Garcia Marenco	Government	Nicaragua
Per Kurowski	Individual	..
Marco Arnone	Individual	Italy
Sanusimuyideen	Individual	..
Alex	Individual	..
Dr Vrajlal Sapovadia	Individual	India
Ronald B Brinn	NGO	..
Ghulam Murtaza	Individual	..
Ian Wakefield	Individual	United Kingdom
Jo Marie Griesgraber	NGO	USA

Mr Amit Varma	Individual	
Axel Dreher	Academe	Switzerland
R Van Hudson	Individual	USA
Henry Ekwuruke	Individual	
Dr Chris Simms	Individual	
Ji deLuca	Individual	
Peggy Schoen	NGO	
Jim deLuca	Individual	
Francisco Javier Meléndez Hernández	Individual	
Lex Rieffel	NGO	Washington D.C.
Shawn Ladd on Behalf of Dr. Chris Simms	Individual	
Heike Mainhardt-Gibbs	NGO	
Edwin Truman	Individual	
Dr Ashish Manohar Urkude	Individual	India
Peter Chowla	NGO	
Fritz Fischer	Individual	

Attachment 3: The Committee's meetings with Bank and Fund management and staff

IMF

Mark Allen, Director, Policy Development and Review Department

Charles Blitzer, Assistant Director, International Capital Markets Department

Jamie Caruana, Director, Monetary and Capital Markets Department

Benedicte Christensen, Deputy Director, African Department

Dan Citrin, Deputy Director, Asia and Pacific Department

Rodrigo de Rato, Managing Director

Juan Carlos Di Tata, Senior Advisor, Middle East and Central Asia Department

Peter Fallon, Deputy Chief, Policy Development and Review Department

Richard Harmenson, Senior Economist, Policy Development and Review Department

Juha Kahkonen, Senior Advisor, European Department

Ben Kelmanson, Economist, Policy Development and Review Department

Russell Kincaid, Deputy Director, Policy Development and Review Department

Anne Krueger, First Deputy Managing Director

John Lipsky, First Deputy Managing Director

Guy Meredith, Assistant Director, Western Hemisphere Department

Ceda Ogada, Senior Counsel, Legal Department

Raghu Rajan, Economic Counsellor

Antonio Spilimbergo, Deputy Chief, Research Department

Mark Swinburne, Assistant Director, Monetary and Financial Systems Department

Teresa Ter-Minassian, Director, Fiscal affairs Department

IMF Executive Directors

World Bank

Giles Bauche, Advisor, Poverty Reduction and Economic Management

Amar Bhattacharya, Senior Advisor, Poverty Reduction and Economic Management

Francois Bourguignon, Senior Vice President and Chief Economist

Juan Jose Daboub, Managing Director

Augusto de la Torre, Senior Advisor, Finance and Private Sector Development

Shanta Devarajan, Chief Economist, South Asia Region

Alan Gelb, Director, Development Policy Development Economics

Gloria Grandolini, Senior Manager, Treasury Vice Presidency

Isabel Guerrero, Country Director, Colombia and Mexico

Michael Klein, vice President and Chief Economist

Vicenzo La Via, Chief Financial Officer

Danny Leipziger, Vice President

John Page, Chief Economist, African Region

Guillermo Perry, Chief Economist Latin America and Caribbean Region

Roberto Rocha, Lead Financial Sector Economist, Finance and Private Sector Development

Marilou Uy, Sector Director, Finance and Private Sector Development

Andrew Vorink, Country Director, Turkey

Graeme Wheeler, Managing Director

Paul Wolfowitz, President

World Bank Executive Directors

Others

African Governors of the IMF and World Bank

Ariel Buira, G-24

Donald Kaberuka, President, African Development Bank

Haruuhiko Kuroda, President, Asian Development Bank

Financial Sector Reform and Strengthening Initiative, Governing Council Members