INTERNATIONAL MONETARY FUND and WORLD BANK

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

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Acronyms

AML	Anti-Money Laundering
CAS	Country Assistance Strategy
CFT	Combating the Financing of Terrorism
DC	Development Committee
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
JIC	Joint Implementation Committee
JSA	Joint Staff Assessment
OPCS	Operational Policy and Country Services (World Bank)
PDR	Policy Development and Review Department (IMF)
PREM	Poverty Reduction and Economic Management (World Bank)
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PRSC	Poverty Reduction Support Credit
ROSC	Report on the Observance of Standards and Codes

I. Introduction

1. Close collaboration between IMF and World Bank staff on country program design and policy advice is indispensable for effective support to member countries.[1] There has been a long history of working together to align the work of the two Bretton Woods institutions—each with its respective mandate and areas of expertise—while minimizing duplication.[2] In September 1998, the Managing Director of the IMF and the President of the World Bank reaffirmed the principles of earlier accords and agreed on changes in procedures and practices intended at ensuring more effective coordination at an operational level.[3] In September 2000, the heads of the two institutions set out a shared vision for close cooperation.[4] These agreements have built a framework for Bank–Fund cooperation that recognizes the shared principles of commitment to country ownership, the importance of a coherent approach to supporting country priorities based on an efficient division of labor, and the need to focus and streamline conditionality.

2. ***Strengthened Framework for Bank-Fund Staff Collaboration***. In August 2001, the Boards of the Bank and the Fund endorsed the joint paper *Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality*, which applied the strengthened collaboration framework to country issues. Since the joint Board paper was issued, staff of both institutions have gained a better appreciation of the different structures and processes of the two institutions, and how best they can be aligned in the support of member countries. This process has taken considerable time, but it has been important for forging the necessary ownership in both institutions. To operationalize the approach of the strengthened framework, in the spring of 2002, Bank and Fund management issued a guidance note on *Operationalizing Bank-Fund Collaboration in Country Programs and Conditionality* to staff of both institutions (Annex I). It provides a systematic structure for staff cooperation that stresses division of labor based on the concept of a lead agency, discussions and coordination at an early stage (“upstream engagement”),

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[1] Collaboration with other multilateral institutions, while also important for effective support to member countries, is not the focus of this paper.

[2] See “History on Bank-Fund Cooperation on Conditionality” Annex in “Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality” (SecM2001-0461/1, August 24, 2001, and SM/01/219, Supplement 1, Revision 1, August 23, 2001).

[3] See *Report of the Managing Director and the President on Bank-Fund Collaboration* (World Bank document SecM98-733 and IMF document SM/98/226), September 4, 1998. This document is referred to as the joint guidelines.

[4] *The IMF and the World Bank Group: An Enhanced Partnership for Sustainable Growth and Poverty Reduction*, Joint Statement by Horst Köhler, Managing Director, and James Wolfensohn, President (SecM2000-536), September 5, 2000.

adequate information sharing, and transparency in presenting information to the Boards. Staff have begun implementing the strengthened approach in program countries.

3. ***Parallel Initiatives***. Bank-Fund collaboration is being strengthened in a number of areas, including through the PRGF/HIPC framework, systematic joint analytic work, such as in the FSAP and ROSC exercises, and joint workshops and seminars on selected thematic issues, such as privatization and civil service reform (Box 1). In addition, Board collaboration has been intensified, including through visits by the Bank and Fund managements with the Board of the other institution.

Box 1. Areas of Intensified Bank-Fund Collaboration

1. PRSP Process

Since its introduction in 1999, the PRSP approach has significantly enhanced the framework for Bank-Fund collaboration in assisting low-income countries. The PRSP is a comprehensive statement of the country's strategy for generating growth and reducing poverty, prepared by the government through a country-driven process that includes other key domestic stakeholders and development partners. Country ownership, comprehensive diagnosis, results orientation, partnership and a long-term perspective are the key principles that underlie the PRSP approach. Bank and Fund staffs provide a Joint Staff Assessment (JSA) of the PRSP to the Executive Boards regarding the adequacy of the strategy as a basis for the provision of concessional assistance by the two institutions. The specific design of those assistance programs is delineated in the Bank's Country Assistance Strategy (CAS), and arrangements are linked to the assessment of the strengths and weaknesses of the country's strategy as laid out in the JSA. In preparing a JSA, lead responsibility among Bank and Fund staff is divided in line with core institutional competencies recognizing that areas of overlapping competence are dealt with jointly. A Joint Implementation Committee (JIC) was established to support the effective implementation of the PRSP approach by monitoring progress in implementation, with consistency in application. This framework provides the basis for reducing overlap between the Bank and Fund, delineating responsibilities more clearly, and focusing and rationalizing conditionality. To date 45 interim PRSPs and 17 full PRSPs have been discussed by the Boards. In the coming year, an additional 15–20 full PRSPs and 5–10 interim PRSPs are expected to be completed.

2. HIPC

The Bank and the Fund have been working jointly to design the HIPC Initiative framework and to implement it at the country level. The Initiative provides a comprehensive framework aimed at reducing the external debt of heavily indebted poor countries (HIPCs) to sustainable levels, based on a joint assessment by both institutions and the country authorities. While challenges remain, combined efforts have yielded significant progress: 20 countries have reached decision points and 6 have reached completion points.

3. Financial Sector

To strengthen collaboration in the financial sector, a joint **Bank-Fund Financial Sector Liaison Committee** was established in 1998. Its objectives are to enhance operational coordination so that sound, timely and consistent advice and support is delivered to member countries, and so that expertise from both institutions is utilized in the most effective manner, based on a division of labor set out in mutually agreed guidelines.

This enhanced collaboration is reflected in the **Financial Sector Assessment Programs (FSAP),** jointly undertaken by the Bank and the Fund, which aim at assessing a country's financial sector strength and vulnerabilities and at identifying reform priorities in the context of the Fund's surveillance and the Bank's financial sector development work. By end-June 2002, the FSAP has covered 59 countries. A joint FSAP review is under preparation for Board discussions after the Annual Meetings.

4. Reports on the Observance of Standards and Codes (ROSCs)

The Bank and the Fund have collaborated closely on a program to assess progress in member countries' implementation and observance of standards and codes. As of end-June, 264 ROSC modules have been prepared. The Fund has taken the lead on data and fiscal transparency, both institutions have assessed financial sector standards jointly as part of the FSAP, and the Bank has taken the lead in corporate governance, accounting and auditing, and insolvency and creditor rights. A joint review is under preparation.

5. Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)

The Bank and the Fund have launched a joint action plan complementary to the efforts of others, aimed at helping countries assess their regulatory and institutional framework to prevent money laundering and financing of terrorism. AML/CFT standards will be integrated into the joint ROSC/FSAP framework on a pilot basis. Notably, the Bank and Fund Boards agreed, subject to certain conditions, to add the FATF 40+8 recommendations to the list of areas and associated standards and codes useful to the operational work of the Fund and the Bank. They endorsed a 12-month pilot program of AML/CFT assessments and accompanying ROSCs that would involve participation of the Fund and the Bank, the FATF, and FATF-Style Regional Bodies.

6. Public Sector Management

The Bank and the Fund have been working increasingly closely on helping countries strengthen their public expenditure management. A joint Bank-Fund paper discussing experiences with the focus to further strengthen Bank-Fund collaboration in this area will be submitted to both Boards in 2003. The Bank and the Fund have also been collaborating on the HIPC expenditure tracking assessments.

7. Collaboration on Thematic Issues

To improve coherence in policy advice, technical assistance, and program support and conditionality, Bank and Fund staff have intensified their dialogue on thematic issues in the context of joint seminars, round tables, and workshops. Areas where staffs have increased dialogue and collaboration include (1) public financial management, governance and anti-corruption; (2) privatization; (3) civil service reform; (4) trade; and (5) reserve management. It is intended to extend this cooperation to other policy fields.

4. ***Coverage of this Paper***. This paper responds to the request of Directors to report periodically on progress in implementing the strengthened framework, described in Section II. As too little time has passed for a full assessment of the impact of the Guidance Note, the main focus of this report is to take stock of the current state of staff collaboration—drawing on the findings of a survey of Fund mission chiefs and Bank Country Directors—to provide both a benchmark for future reviews and a preliminary assessment of the prospects for improvement resulting from the application of the Guidance Note (Section III). Section IV presents an overview of communications to the Boards, and Section V provides conclusions and issues for discussion.

II. Key Elements of the Collaboration Process

A. Overview

5. In order to strengthen the framework for collaboration and reduce the risk of duplication or inconsistent policy advice, Bank and the Fund managements have agreed on, and have repeatedly

reaffirmed, the delineation of primary responsibilities of each institution.[5] The core responsibilities of the Fund comprise macroeconomic stabilization, monetary, fiscal, and exchange rate policy, including the underlying institutional arrangements and closely related structural measures, and financial system issues related to the functioning of domestic and international financial markets. The core mandate of the World Bank Group is to help countries reduce poverty by focusing on the structural and social agenda, including the public and financial sectors, and encompassing the institutional and environmental dimensions of development. There are some important areas of overlap—such as in the financial sector—in which both institutions have expertise and can provide complementary policy advice.

6. Bank-Fund cooperation has gained additional momentum in the context of efforts by both institutions to streamline and focus their conditionality so as to strengthen country ownership of policy reform programs, thereby making them more effective. Conditionality is central to policy-based lending: it elaborates the basis of a commitment between the country and the Bank or the Fund on cooperation throughout the period of a policy reform program. It also provides the basis for financing assurances for the country and for ensuring that funds are used in support of the objectives of the program.[6]

7. The Bank has recently completed a review of the use and design of adjustment lending and conditionality. The *Adjustment Lending Retrospective* took stock of major developments in adjustment lending over the past two decades, reviewed the experience with conditionality and Bank-Fund collaboration, and examined the appropriate use of adjustment lending within the Bank's menu of lending instruments.[7] A major development documented in the retrospective has been the continuing move toward greater focus and selectivity in the conditionality of the Bank's

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[5] See 1989 *Concordat*; *Report of the Managing Director and the President on Bank-Fund Collaboration* (World Bank document SecM98-733 and IMF document SM/98/226), September 4, 1998; and *The IMF and the World Bank Group: An Enhanced Partnership for Sustainable Growth and Poverty Reduction*, Joint Statement by Horst Köhler, Managing Director, and James Wolfensohn, President (SecM2000-536), September 5, 2000.

[6]See *Structural Adjustment Lending* (R8-122, IDA/R80-83), May 9, 1980; *Adjustment Lending Retrospective* (SecM2001-0215), April 2, 2001; and "Conditionality in Fund Supported Programs—Policy Issues" (SM/01/60, Supplement 1, February 20, 2001).

[7] See *Adjustment Lending Retrospective* (SecM2001-0215), April 2, 2001. Conditionality and Bank-Fund collaboration were also the subject of several formal and informal briefings of Executive Directors and their staff. See *Technical Briefing on Adjustment Lending and Conditionality* (OM2002-0059), April 16, 2002.

policy-based lending. The lessons for policy-based lending are being reflected in the planned update of the World Bank's operational policy for adjustment lending.[8] [9]

8. An important driving force for strengthening collaboration was the decision by the IMF to streamline and focus its own conditionality and to base Fund-supported programs more clearly on strong country ownership. These efforts have been pursued in the context of the ongoing review of conditionality.[10] A key aim of this review has been to focus IMF conditionality on those policy measures that are critical for monitoring and achieving the macroeconomic objectives of a Fund-supported program, with the presumption that IMF conditionality be applied particularly sparingly outside the IMF's core areas of responsibility.

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[8] See *From Adjustment Lending to Development Policy Support Lending: Key Issues in the Update of World Bank Policy* (CODE/M2002-0006), May 29, 2002.

[9] This work is being integrated within the broader context of the Poverty Reduction Strategy Paper (PRSP) initiative for low-income countries, the Bank's support for country development programs set out in the paper *Supporting Country Development in Low- and Middle-Income Countries,* and the *Report of the Task Force on the World Bank Group and Middle Income Countries*. See *Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries* (DC/2000-19), September 8, 2000 and *Supporting Country Development: Strengthening the World Bank Group's Support for Middle-Income Countries* (DC2001-0005), April 10, 2001.

[10] This review, comprising a series of Executive Board discussions and external consultations initiated in the summer of 2000, is expected to culminate in adoption of new conditionality guidelines. See "Conditionality in Fund-Supported Programs—Overview," (SM/01/60, February 20, 2001), "Conditionality in Fund-Supported Programs—Policy Issues," (SM/01/60, Sup. 1, February 20, 2001), "Structural Conditionality in Fund-Supported Programs," (SM/01/60, Sup.2, February 16, 2001), "Trade Policy Conditionality in Fund-Supported Programs," (SM/01/60, Sup. 3, February 16, 2001, "Streamlining Structural Conditionality Review of Initial Experience," (SM/01/219, July 12, 2001), "Strengthening IMF-World Bank Collaboration—Revised Board Paper Experience," (SM/01/219, Sup. 1, Rev. 1, August 23, -Supported Programs—External Consultations," (SM/01/219, Sup. 2, July 17, 2001), "Strengthening Country Ownership of Fund-Supported Program," (SM/01/340, Rev. 1, December 6, 2001), "The Modalities of Conditionality Further Considerations," (SM/02/13, January 8, 2002), "Lessons from the Real-Time Assessments of Structural Conditionality," (SM/02/90, March 21, 2002), "Streamlining and Focusing Conditionality and Enhancing Ownership of Fund-Supported Programs—Managing Director's Report to the International Monetary and Financial Committee," (SM/02/91, Rev. 1, April 10, 2002), and "Guidance on the Design and Implementation of IMF Conditionality—Preliminary Considerations," (SM/02/170, June 3, 2002).

9. Success in both institutions' efforts to streamline and focus conditionality hinges on effective collaboration. Indeed, these efforts will be fully successful only with a clear division of labor, building on each institution's respective areas of expertise, and frequent dialogue and information sharing.

B. Approach to Collaboration

10. The paper "Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality" built on these efforts and reaffirmed the need to provide coherent support to countries through early and systematic collaboration between Bank and Fund staff while respecting the division of responsibilities laid out in the 1989 Concordat and the 1998 Joint Memorandum.[11] In discussing the joint paper, the Boards of the two institutions reaffirmed the principles set out in the 1998 agreement between Bank and Fund managements—clarity about responsibilities, early and effective consultations, and distinct accountabilities.[12] They endorsed the approach suggested in the paper. This approach:

- Formalizes the "lead agency" concept to ensure clarity of roles, improve accountability, and increase transparency. Bank and Fund country teams will jointly set out the respective roles of each institution in support of country programs, designating one of the two institutions as the lead agency for dealing with specific policy issues. In designating the lead agencies, teams will be guided by the division of labor set out in the 1998 joint guidelines and 2000 joint statement.[13] The lead agency takes charge of the substantive dialogue with a country on a specific policy area, and provides lending and non-lending support. Within the designated area, it advises the other institution on the substantive content of policies and the design of conditionality.

- Proposes systematic information sharing and monitoring in the context of lending operations and in CAS and Article IV consultations for countries with ongoing or prospective Bank and Fund lending operations. Board documents will appropriately summarize the substance of this dialogue.

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[11] See "Bank-Fund Collaboration in Assisting Member Countries" (SM/89/54, revision 1) and (R89-45), March 31, 1989; *Report of the Managing Director and the President on Bank-Fund Collaboration* (SecM98-733), September 4, 1998.

[12] See *Chairman's Summary, Informal Meeting- July 26, 2001: World Bank-IMF collaboration on Conditionality*, (SecM2001-0512), August 14, 2001, and *Public Information Notice (PIN)* No. 1/92, September 4, 2001, IMF.

[13] See *Report of the Managing Director and the President on Bank-Fund Collaboration*, op.cit.; and *The IMF and the World Bank Group: An Enhanced Partnership for Sustainable Growth and Poverty Reduction*, op.cit.

- Emphasizes that each institution retains ultimate responsibility for its own lending decisions. Conditions critical for the success of an institution's program continue to be specified in that institution's own arrangements. Conditionality will be duplicated only when a policy measure is considered critical for the success of the programs supported by both institutions. In such cases, conditionality will be harmonized, using identical dates and benchmarks to the extent possible.

C. Staff Guidelines

11. Staff have been working to make this approach operational, building on existing work practices and structures of the two institutions. The main locus of collaboration is the area departments at the Fund and regional departments at the Bank—with the respective central departments (PDR at the Fund; OPCS and PREM at the Bank) playing supporting roles. In line with this approach, the Staff Guidance Note on *Operationalizing Bank-Fund Collaboration in Country Programs and Conditionality* was developed jointly, based on extensive consultations with staffs and management of Fund area departments and Bank regions. The two key elements of more systematic Bank/Fund coordination are:

- ***Early engagement*** between the staffs of the two institutions at the regional/country team level to develop a shared perspective on a country-led reform program and priorities, agree on the division of responsibilities, and clarify and ensure smooth coordination on respective programs.

- ***Transparent reporting in Board documents*** of the views of each institution on reform priorities, program conditionality, and progress in implementation of the supported program.

III. Assessment of Current Bank-Fund Staff Collaboration

12. Following the issuance of the Guidance Note, a survey was conducted to take stock of the current state of Bank-Fund collaboration, drawing on the views of Bank Country Directors and Fund mission chiefs for all countries in which either or both institutions have a program or a prospective program.[14]

13. Country authorities are the most important partner in the policy dialogue. While this baseline review has not yet benefited from a systematic account of authorities' views, the comments and

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[14] Details of the questionnaire are presented in Annex II. In the case of the Bank, program countries include PRSP countries and countries with ongoing or planned adjustment lending, informed by the CAS. In the case of the Fund, they include PRGF countries and countries with upper credit tranche conditionality and emergency assistance, as well as other countries where the Bank is supporting the authorities' reform efforts.

suggestions from Directors will provide important guidance to the staff of both institutions in the continued implementation of the strengthened collaboration. It is envisaged that future reviews would also consider the views of the countries on the progress of collaboration. Yet, the true test of the success of collaboration is in the quality of the resulting programs, which is best considered in the broader context of periodic assessments of the overall IMF- and Bank-supported programs, such as the recent PRSP and PRGF reviews, and in evaluations of specific country programs.[15]

14. The survey, consisting of some 20 (mostly multiple choice) questions, and focusing on experience over the past year, examines staffs' perceptions of the quality and effectiveness of collaboration. This includes (i) coherence of policy advice and clarity of each institution's role; (ii) coverage and consistency of conditionality; and (iii) factors contributing to or impeding effective collaboration.

15. The responses to the survey indicate a relatively positive staff assessment of Bank-Fund collaboration. This positive assessment may partly reflect some reticence in airing differences or a built-in positive bias due to respondents' keen awareness of institutional objectives. On the other hand, it is possible that common perceptions of difficulties are exaggerated as anecdotal evidence tends to focus on negative experiences. The survey also identifies a number of impediments to effective collaboration. While institutional differences, in particular, will continue to pose challenges, many of the reported impediments can be overcome by enhanced "upstream engagement" as outlined in the Guidance Note. The following subsections give an overview of the main survey results.

A. Coherence of Policy Advice and Clarity of Roles

16. ***Shared Perspective.*** Arriving at a shared perspective between the staffs of the two institutions on the appropriate reforms to be covered under a program is a prerequisite for effective collaboration. The survey results indicate that in the large majority of cases staff felt this condition was met (Figure 1).

Clarity of Roles. A second key condition for effective collaboration is clarity in the roles and responsibilities of the two institutions. Even though a large majority of respondents regard the demarcation of responsibilities as largely or fully clear, some 14 percent of Fund mission chiefs and 19 percent of Bank Country Directors do not (Figure 2). Lack of clarity about which institution takes the lead is mainly associated with reforms in areas of shared responsibility (such as financial sector reform and budget management), while roles in other areas appear well-defined.

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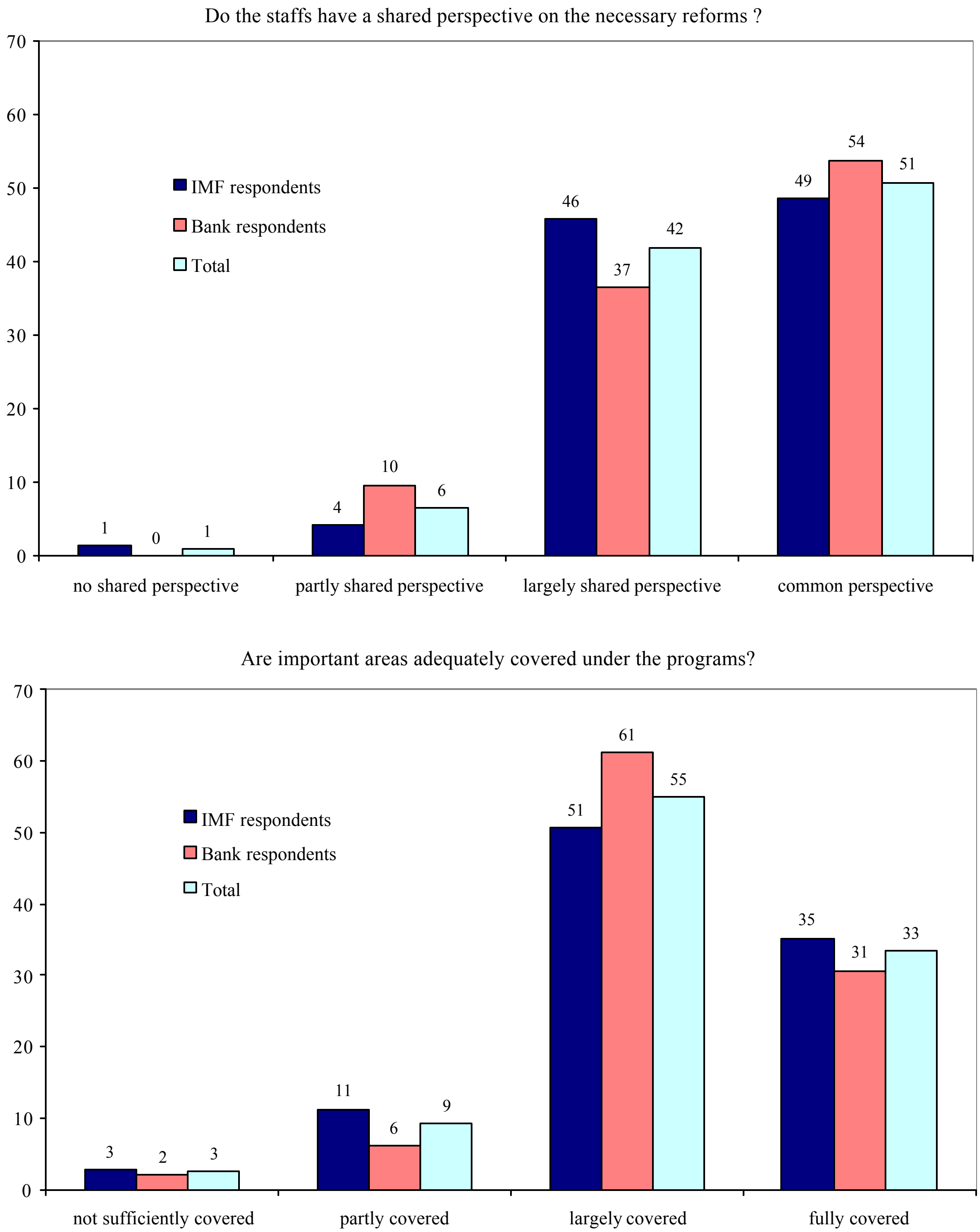
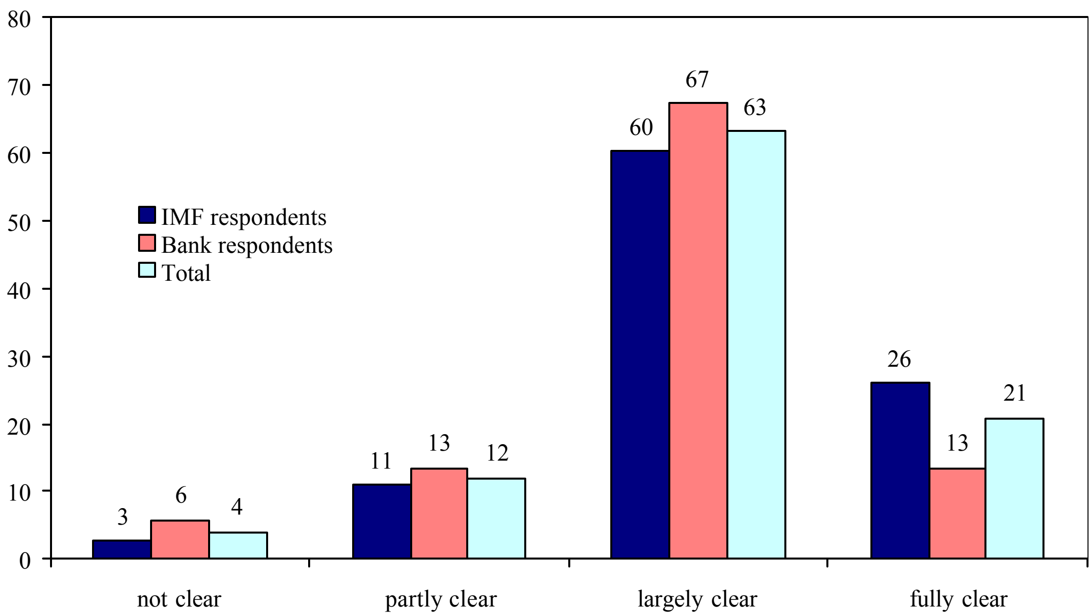
[15] See "Review of the Poverty Reduction Strategy Paper Approach" (SM/02/53 and SM/02/54, February 15, 2002); and "Review of the Poverty Reduction and Growth Facility" (SM/02/51 and Supplement 1, February 15, 2002).

Figure 1. Shared Perspective on Country Reforms
(in percent of respondents)



Source: Bank-Fund Collaboration Survey.

Figure 2. Clarity of Roles and Responsibilities
(in percent of respondents)
Is there a clear division of labor between the two institutions?

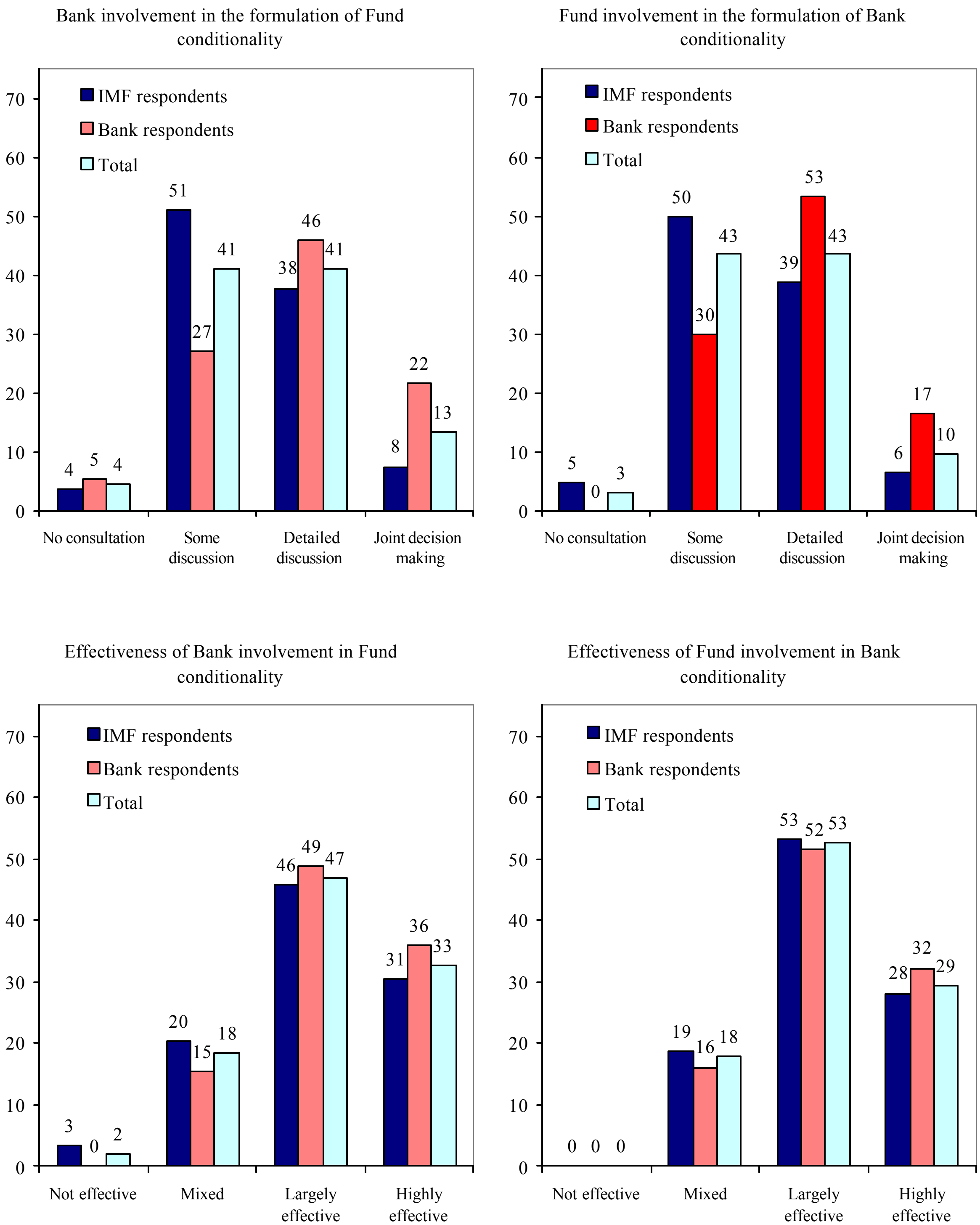


B. Coverage and Consistency of Conditionality

17. As noted above, the paper on *Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality* lays out principles for the relationship between the two institutions in setting conditionality. Specifically, each institution should maintain conditionality on reforms deemed critical to the success of the member country's program it is supporting. To the extent that these measures lie outside the institution's own core area, the design and monitoring of the reform measure (and the specification of conditionality) should draw on the other institution's expertise.

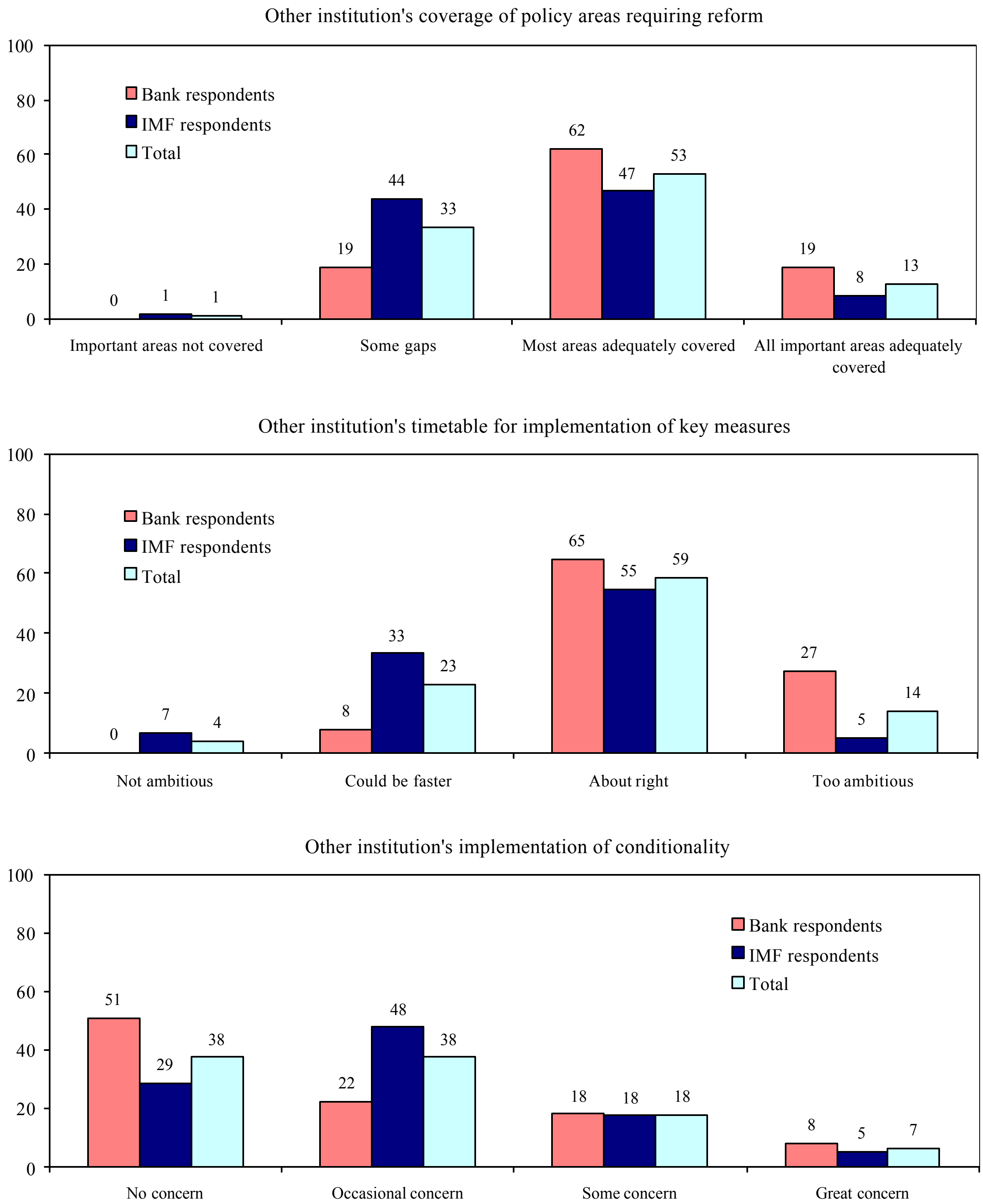
18. Country Directors and mission chiefs report a considerable degree of involvement in the formulation of the other institution's conditionality, with about 80 percent considering it largely or highly effective (Figure 3). A majority of respondents also share the view that the other institution's conditionality covers most or all important areas of reform (Figure 4). Fund staff have been more worried about gaps in, and implementation of, Bank conditionality. Bank staff concerns have centered more on Fund conditionality extending to Bank core areas without sufficient dialogue. Similarly, more than half of respondents in both the Bank and Fund think that the other institution's timetable for implementation of key measures is about right. But—in line with general perceptions of the two institutions—40 percent of IMF respondents feel that key reforms in Bank-supported programs could be implemented *faster*, while nearly 30 percent of World Bank respondents consider the IMF timetable *too ambitious* to be realistic. The differences in perceptions may reflect the diverse mandates and lending instruments—as well as the different cultures—of the two institutions.

Figure 3. Involvement in Other Institution's Program Design and Conditionality
(in percent of respondents)



Source: Bank-Fund Collaboration Survey.

Figure 4. Perceptions about Program Supported by the Other Institution
(in percent of respondents)



Source: Bank-Fund Collaboration Survey.

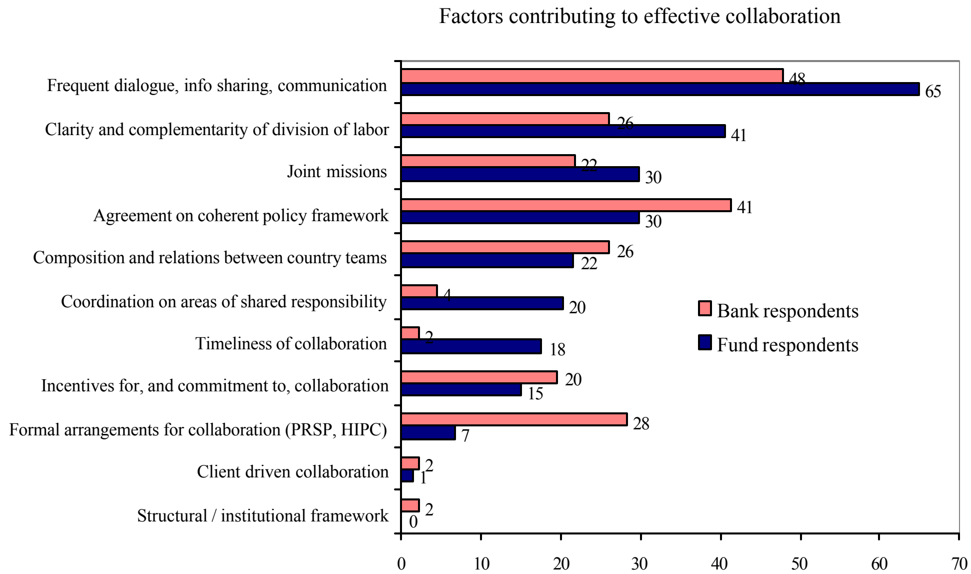
19. Finally, about 20 percent of respondents report either some or a high degree of duplication. However, in most cases (around 80-90 percent) the reason indicated is—consistent with the strengthened framework set out in the joint Board paper of August 2001—that the measure is considered critical to both programs and should therefore be included in each institution's conditionality. In only about 5 percent of cases, does duplication reflect difficulties in synchronizing the timing or phasing of conditionality, or concerns about either the coverage or implementation of conditionality of the other institution.

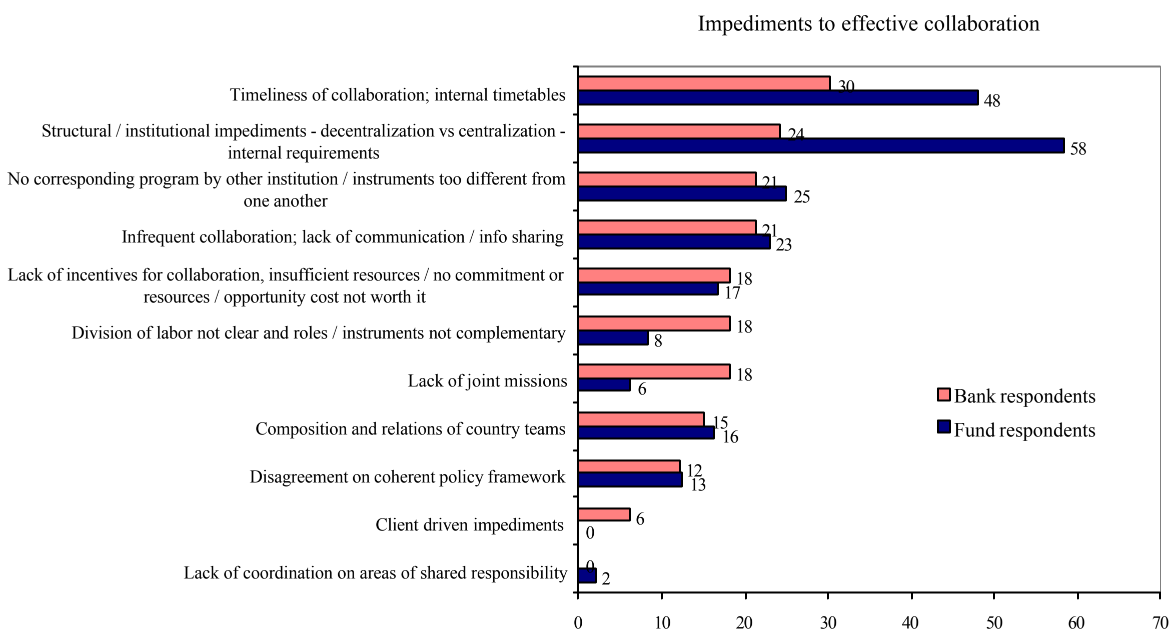
C. Factors Supporting or Impeding Effective Collaboration

20. ***Characteristics of good collaboration***. A large share of respondents (two-thirds in the Fund and one-half in the Bank) stress *frequent and timely dialogue and informal communications* (including consultations and briefings, and transparent information sharing) throughout the entire process as one of the most critical factors for effective collaboration (Figure 5). Important elements of this dialogue include regular meetings; mutual sharing and review of data, mission briefs, and papers; frequent updates of assessments; and early consultations on policy issues that are relevant for the other institution in order to resolve potential difficulties at an early stage. Among the other contributing factors, respondents of both institutions place strong emphasis on the *development of a coherent policy framework* (particularly Bank staff) and a *clear and complementary division of labor* (predominantly in the Fund). Several Bank responses note that the recent refocusing of Fund conditionality has contributed to a clearer division of labor between the two institutions. Other important factors identified by both staffs are *joint missions* (or cross participation) and the *composition and relations between country teams.* Indeed, joint participation in missions, besides improving the flow of information and facilitating the development of a shared vision, is valued as an opportunity for strengthening personal and professional relations which are, in turn, a key factor supporting effective collaboration. Bank staff also emphasizes the role of *formal arrangements for collaboration*, provided through the PRSP/HIPC and FSAP/ROSC process, while Fund staff places a relatively higher importance on *coordination on areas of shared responsibility* and *timeliness of collaboration*.

21. ***Impediments to effective collaboration.*** Institutional factors, including *differences in internal requirements, working structures, timetables, and lending arrangements and instruments*, are seen as the major impediment to effective cooperation. Respondents of both institutions note, in particular, the problems of reconciling the relatively fixed time-sensitive conditionality of Fund-supported programs driven by the objective of restoring macroeconomic stability, with Bank conditionality that is focused on longer-term growth and development objectives and relies less on prompt implementation of specific measures. One set of views emphasizes that integration of Bank conditionality or disbursements with the Fund's tighter conditionality framework risks undermining program objectives if it focuses more on speed than on quality. Other respondents suggest that the Bank has not always been able to react and to provide timely input needed for Fund-supported programs, sometimes as consequence of *limited budgetary and/or staff resources*. Fund staff also identifies the Bank's

Figure 5. Factors Contributing to, or Impeding Effective Collaboration
(in percent of respondents)





Source: Bank-Fund Collaboration Survey.

decision-making processes encompassing country and sectoral departments as an obstacle to effective communication, particularly when seeking an "institutional view" on certain policy aspects. On the other hand, the need for Fund staff to refer decisions back to Washington seems to have complicated coordination from the perspective of the Bank. Besides these institutional constraints, respondents from both institutions broadly agree on a range of more procedural factors that impede collaboration, including *lack of communication; composition and relations of country teams; disagreement on a coherent policy framework*; and (mainly Bank staff) *lack of joint missions and unclear division of labor*. Only a few respondents point to *impediments that derive from national authorities* (e.g., where country authorities have a strong preference for dealing with one institution over the other). The Guidance Note responds to many of these factors, as discussed next.

D. Prospects for Improved Collaboration

22. Notwithstanding the staffs' largely positive assessment of collaboration, the survey has revealed a number of impediments. Most of these reflect experiences prior to the issuance of the Guidance Note and may be overcome by its application over time. While it is too early to draw reliable conclusions—and while certain institutional differences will inevitably continue to pose challenges to effective collaboration—the processes outlined in the Guidance Note promise to address many of the impediments identified by the staffs. In particular:

- The emphasis that management has placed on improved collaboration has focused staffs' attention on this issue and has raised incentives for collaboration on both sides. The Boards' views in the context of improved communication (see Section IV) will play an important role in maintaining the positive momentum.

- Early consultation and harmonization of work programs and missions, as encouraged in the Guidance Note, will foster communication and information sharing and limit problems associated with different internal timetables. It will also tend to strengthen personal and professional relations between teams.

- Assignment of lead agency responsibilities based on a shared perspective on reform priorities and a clear division of labor will provide clarity and allow a more coherent and streamlined application of conditionality that fosters country ownership and effective program implementation.

- The designation of a specific contact person in each institution as the focal point for collaboration will reduce problems resulting from the different organizational structure in the two institutions.

IV. Communication of Staff Views to the Boards

23. Executive Boards of both institutions have stressed the need for careful documentation in staff reports on the division of labor between the two institutions, the structure and timing of their

conditionality, the progress achieved in key economic reforms, and the implications for the overall program.

24. At IMF Executive Board discussions related to the conditionality review, Directors stressed the need for such information to establish that streamlining the Fund's conditionality results in an overall reduction in conditionality from the perspective of the country, and not just a shift from one international institution to another. On the other hand, the information would also help assure Directors that important areas no longer covered by Fund conditionality are being adequately covered by other agencies, particularly the World Bank. In this light, Directors welcomed the initiative of including a box on conditionality in staff reports but felt that the information on the choice of conditionality could be expanded, especially on the division of labor between the Fund and the Bank.[16]

25. World Bank Directors agreed that as a vehicle for strengthening transparency and staff accountability, future Board documents discussing proposed Bank and Fund support for country development should set out clearly the views of the lead agency.[17] They noted that this practice was already common at the Bank, where the President's Reports and tranche release documents for adjustment lending typically set out views of Fund staff on the macroeconomic situation.

26. To address the issue of communication of staff views in Board documentation the Guidance Note stresses the need for transparency in presenting information to the Boards of the two institutions. In reporting the views of each institution on reform priorities, program conditionality, and progress in implementation of the agreed program, the Guidance Note builds on the existing process of reporting. It proposes (i) to accompany the program documentation for the IMF Board with an enhanced "IMF-Bank Relations Annex" prepared by Bank staff, and to accompany the program documentation for the Bank Board with a "Fund Relations Note" prepared by Fund staff; and (ii) systematic participation by staff of one institution in Board meetings of the other.

27. Since the issuance of the Guidance Note, the strengthened framework has been made operational, with an initial focus on countries where both institutions are supporting a program. To date, the new Bank-Fund relations annexes have been included in Board documents for Albania, Burkina Faso, Croatia, D.R. of Congo, Jordan, Lao P.D.R., and Uganda. The initial experience, while limited, has been encouraging and welcomed by the Boards. As set out in the staff guidelines, the annexes provide an overview of the reform priorities supported by the two institutions and their respective views on conditionality to support the government's program. Also, as staff of the two

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[16] Requests for additional information were mainly linked to concerns that potentially critical measures (especially of fiscal importance) were not covered under Fund's conditionality.

[17] See *Chairman's Summary: World Bank-IMF Collaboration on Conditionality, Informal Meeting. July 26, 2001*, SecM2001-0512, August 14, 2001.

institutions report in the survey, the systematic inclusion of staff views in Board documents and their presentation at Board meetings has been largely straightforward. Respondents also report that their counterparts attending Board discussions are at an appropriate level and well prepared to respond in areas where the institution's staff or management have undertaken specific commitments.

V. Conclusions and Issues for Discussion

28. The analysis of the survey results described in the previous sections is broadly supportive of the approach taken in the Guidance Note. The results of the questionnaire suggest that, while there are a number of potential impediments to coordination, many of them should, to a significant extent, be overcome through the improved processes outlined in the Guidance Note. These include, in particular, early consultation and harmonization of work programs and missions, including (resource constraints permitting) joint missions or greater cross-participation; development of a shared perspective on the key policy issues and priorities facing a country; and a clear division of roles. The Guidance Note accordingly does not seek to establish a formal, centralized mechanism for coordination, but instead bases coordination at the level of the mission chief and Country Director. Moreover, transparency and accountability are fostered by improved communication to the Boards. Experience with the application of the Guidance Note will tell whether additional efforts are warranted in the future to deal with any remaining impediments to effective collaboration.

29. ***Next Steps.*** The staff of both institutions thus propose to move ahead on the basis of the Guidance Note, subject to another review by both Boards in about two years' time. Moreover, to the extent that the ultimate purpose of collaboration is to ensure the best possible quality of Fund- and Bank-supported programs, internal and external studies of experience under those programs will afford further opportunities to review how coordination has been working in practice.

30. ***Issues for Discussion***. In their discussion, Directors may wish to comment on the experience with Bank-Fund collaboration in program design and conditionality and, in particular, on two questions:

- Directors may wish to reflect on the experience with Bank-Fund collaboration from the perspective of the member countries they represent. From this perspective, do they see additional or different factors for Bank and Fund staff to consider in implementing the strengthened collaboration framework?

- More generally, do Directors feel that the approach set out in this progress report adequately operationalizes the principles of collaboration discussed in the paper *Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality*?

Operationalizing Bank-Fund Collaboration in Country Programs and Conditionality Staff Guidance Note April 2002

The purpose of this note is to provide guidance to staff on implementation of the joint World Bank and IMF paper *Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality* that was endorsed by the Boards of both institutions in August 2001.[18]

The paper reaffirmed the twin objectives of Bank-Fund collaboration:

- Provide coherent support to countries through early and more systematic coordination of Bank and Fund staff on conditionality and country programs.
- Apply systematically the agreed division of responsibilities between the two institutions, as per the 1989 Concordat and the 1998 joint Memorandum of the Managing Director and the President.[19]

The paper also proposed two key elements of more systematic Bank/Fund coordination to achieve these two objectives:

- Decentralized upstream engagement between the staffs of the two institutions at the Regional/country team level to develop a shared perspective on a country-led reform program and priorities, agree on the division of responsibilities, and clarify and ensure smooth coordination on respective programs.
- Transparent reporting in Board documents of the views of each institution on reform priorities, program conditionality, and progress in implementation of the agreed program.

[18] This guidance applies to all countries where either Bank or Fund or both have a program or prospective program of support to the country. In the case of the Bank, program countries include PRSP countries and countries with ongoing or planned adjustment lending, informed by the CAS. In the case of the Fund, they include PRSP countries and countries with upper credit tranche conditionality and emergency assistance (in addition, the IMF-Bank relations annex could be attached to Article IV staff reports where the Bank is supporting the authorities' reform efforts).

[19] See Bank-Fund Collaboration in Assisting Member Countries (SM/89/54, revision 1) and (R89-45), March 31, 1989; *Report of the Managing Director and the President on Bank-Fund Collaboration* (SecM98-733), September 4, 1998.

Upstream Engagement:

- Close cooperation between Bank and Fund staff is already common in many countries, especially those with a PRSP. A more systematic approach will help spread good practices, reduce ad-hoc requests for contributions at short notice, and strengthen the recognition of an institution's views in those areas where it has the lead, while avoiding duplication or overlap of conditionality. The key is for Fund and Bank teams to interact sufficiently early in the country program cycle. The Country Director in the Bank and the mission chief in the Fund, or a person designated by each, will be the focal point for this collaboration.

- Bank and Fund teams working on a particular country are encouraged to consult early in the process of formulating a program (adjustment operations or prospective use of Fund resources) or preparation of country assistance strategies. Bank and Fund teams will work to harmonize, to the extent possible, missions, work program and lending operations/arrangements, with a view to improving the quality of policy advice and reducing coordination costs to member countries.

- Individual teams will decide the most appropriate way to discuss, develop, agree on, and document a shared perspective on the country's overall program, including reform priorities and the phasing of key measures.

- To provide coherent support, Bank and Fund teams should clarify and agree on their assistance to countries in identifying and implementing key reform priorities, a division of responsibilities (lead agency for each area), areas of future work, and mutual work commitments.

- Regions/country teams will use existing processes and arrangements in each institution to keep OPCS/PREM in the Bank and PDR in the Fund informed systematically of the results of the process. These central departments will track the country-level arrangements for strengthened collaboration, and report periodically to Management and the Boards on progress in implementation. PREM/OPCS and PDR will also be available to provide support to country teams at their request, disseminate good practices and lessons from experience, and help clarify and resolve issues on which a central policy perspective is needed.

Communication of Staff Views to Bank and Fund Boards:

- In line with the August 2001 joint Board paper, the Boards expect that staff/management will systematically communicate in Board documentation and meetings their work and their views on the substantive areas and conditionality where they are in the lead. Building on existing processes, two mechanisms are proposed for the Bank and Fund to meet this mandate: (i) a re-vamped "IMF-Bank Relations Annex" prepared by Bank staff, and a

"Fund Relations Note" prepared by Fund staff, which would accompany the program documentation for the other institution's Board; and (ii) systematic participation by staff of one institution in Board meetings of the other.

- In the Bank, staff will continue preparing the "IMF-Bank Relations Annex," which is already part of Fund Board documentation—enhancing it to cover not only the Bank's lending and overall assistance and work program in a particular country (as in the past), but also more systematic information about the areas where the Bank is taking the lead and the Bank's views on the reform program, including specific conditionality and progress in implementation. Work for such an annex is envisaged to be programmed and adequately budgeted.

- This Annex will typically be prepared in connection with a CAS or adjustment operation and be cleared and circulated to the Bank's Board as part of the regular processing and documentation for that CAS or operation. As such no separate clearance process will apply. Where there is no available write-up on the Bank's role and views and the Bank has a role in key policy areas, this Annex will be prepared separately and similarly approved through the regular ROC/OC process (and without separate MD clearance), and then be sent to the Bank's Board.

- The Fund Relations Note will consist of (i) a Public Information Notice (PIN) released (with the consent of the authorities) following the completion of the annual Article IV consultation or (ii) a Chairman's Statement following a discussion on the use of Fund resources, whichever is more recent. The PIN and the Chairman's Statement provide a summary of recent developments in the macroeconomic and structural areas and discuss the authorities' macroeconomic program and structural reform program for the coming year with a particular focus on areas considered priorities.[20]

- To facilitate a response to queries from Executive Directors, the IMF-Bank Relations Annex and the Fund Relations Note should include the names and telephone numbers of the responsible staff member in the originating institution.

- The "IMF-Bank Relations Annex" and the "Fund Relations Note" will be updated at least annually, or more frequently when there are significant developments and changes in country circumstances.

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[20] Procedures will be developed to communicate the views of the Fund to the Bank Board in cases where the authorities do not consent to release the PIN and there is also no recent Chairman's summing up.

- Bank and Fund staff are expected to attend Board discussions in the other institution, and will normally be called to the table to present their views on areas of the reform program where their institution is in the lead. This is already common practice, but a systematic effort will be undertaken to ensure that representation is always at an appropriate level and that each institution's representative is prepared to respond in areas where its staff/management have undertaken specific commitments.

Survey Questionnaire on Bank-Fund Collaboration

To provide some background information on the existing state of collaboration between the staffs of the Bank and the Fund, a questionnaire was sent to IMF mission chiefs and World Bank country directors. The questionnaire applied to all countries where either the Fund or the Bank or both (since last August) have a program or prospective program of support to the country. In the case of the Fund, they include PRGF countries and countries with upper credit tranche conditionality and emergency assistance, as well as surveillance countries where the Bank is supporting the authorities' reform efforts. In the case of the Bank, program countries include PRSP countries with ongoing or planned lending, informed by the CAS. In responding to the questionnaire, IMF mission chiefs and World Bank country directors were asked to cover their experience over the current year, including prospective collaboration.

The survey consisted of some 20 multiple choice questions covering five main areas: (i) division of labor and demarcation of the lead agency across sectors; (ii) nature and extent of cooperation in the formulation of conditionality; (iii) duplication of conditionality and views about the other institution's use of conditionality; (iv) information sharing and the review process; (v) representation and communication to the Boards. In addition, respondents were asked which factors they felt contributed to effective collaboration and identify the main impediments.

Responses were completed for 78 countries by IMF mission chiefs, and 61 countries by World Bank country directors. At the Fund, the questionnaire was completed for 54 PRGF (or prospective PRGF) programs, 13 SBA (or prospective SBA) programs, and 4 EFF programs. Responses from the Fund were received for 7 surveillance countries where the Bank is supporting the authorities' reform efforts. At the Bank, 46 of the responses were received for countries with ongoing or planned adjustment lending, of which 29 were PRSP/I-PRSP countries.