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DEVELOPMENT COMMITTEE
JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES



1818 H Street, N.W., Washington, D.C. 20433

Telephone: (202) 458-2980

Fax: (202) 477-1906

April 30, 1991

COMMUNIQUE

1. The Development Committee met in Washington, D.C. on April 30, 1991 under the chairmanship of Mr. Alejandro Foxley, Minister of Finance of Chile. ^{1/}
2. In the context of its broad mandate for the transfer of resources to developing countries, the Committee discussed: (a) the financial implications of development policies aimed at poverty reduction; (b) the role of foreign direct investment in development; and (c) the impact of industrial countries' trade, agricultural and industrial policies on developing countries. The Committee also considered progress reports on the response of the World Bank and the International Monetary Fund to the Middle East crisis, the debt strategy and its impact on the development prospects of all severely indebted countries, the International Finance Corporation's capital adequacy, and the establishment of a Global Environment Facility.

The Middle East Crisis

3. The Committee welcomed the prompt response and ongoing efforts of the Bank and the Fund to assist the countries seriously affected by the Middle East crisis. The Committee urged the Bank and the Fund to continue analyzing the financial requirements of the countries in the region directly affected by the crisis and other affected developing countries. It also urged the two institutions to assist in the mobilization of resources from both the region and external sources. Members stressed that financial assistance to the affected developing countries in and

^{1/} Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves L. Fortin, Executive Secretary of the Development Committee, and Mr. Rudolf Hommes, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.

outside the middle eastern region should seek to facilitate, rather than substitute for, the sustained implementation of sound economic policies and adjustment programs. The Committee underscored the importance of an appropriate and effective coordination arrangement to deal with reconstruction and the adjustment and longer-term development needs of the countries of the region.

Poverty Reduction

4. The Committee reiterated that the reduction of poverty in developing countries is the highest priority for the world development community. It reaffirmed its support for the strategy for reducing poverty presented in the 1990 World Development Report. The Committee noted that the achievement of the objective of poverty reduction would be facilitated by good governance in all countries, recognizing that their sovereignty must be respected. Members emphasized the special need for countries with a high level of poverty to maximize efficiency in the use of existing resources and to mobilize additional domestic savings and public revenues for poverty reduction purposes while increasing the access of the poor to such resources. They also emphasized the need to reexamine the possible reallocation of public expenditures, including excessive military expenditures, to increase their impact on poverty reduction. Members also noted the important role of private sector investment in generating income-earning opportunities for the poor. While mobilizing additional domestic resources to combat poverty is of prime importance, members recognized that this task is difficult particularly in low-income countries where the poor are concentrated and in some of the severely indebted countries. The Committee stressed, therefore, that adequate external resources, mainly of a concessional nature, are necessary to complement the efforts at poverty reduction in these low-income countries. It emphasized, however, that efforts to meet the external financial requirements of potential new claimants on concessional resources should not be at the expense of current recipients pursuing appropriate development policies including poverty reduction. In this connection, the Committee invited donor countries, particularly those with assistance levels below the 0.7 percent ODA/GDP target, to make further efforts to increase the transfer of resources to developing countries.

5. The Committee was of the view that any additional aid volume should be accompanied by a number of improvements in aid delivery. In this regard it stressed the importance of further efforts at meaningful untying of bilateral aid; recurrent-cost financing, especially in the social sectors and infrastructure, for countries undertaking sound policies and over a defined transitional time period for progressively transferring responsibility to host governments; initiatives to enhance the effectiveness of technical assistance to meet the needs of those countries; and means to improve the coordination of concessional resources. The Committee also called upon the providers of concessional resources to examine the scope for reallocating their assistance toward poor countries implementing sound development policies and poverty alleviation strategies.

6. Members welcomed the policy paper on poverty, recently endorsed by the World Bank's Board of Executive Directors, which calls for reliance on rapid, broadly based economic growth and investments in human capital targeted at the poor. They also welcomed the intention of the Bank to implement a plan of action designed to translate the conclusions of the 1990 World Development Report into its operational practices and budgetary priorities. They expressed support for the Bank's objective of placing special emphasis on poverty considerations in the design of its country assistance strategies and in the allocation and composition of its lending resources in a manner consistent with the development strategies of the borrowing countries. They urged the Bank management, in consultation with the Board of Executive Directors, to complete rapidly its handbook and operational directive on poverty, which are now under preparation. The Committee requested a progress report for its Spring 1992 meeting on the implementation of the Bank's plan of action for the reduction of poverty. Members noted the Fund's continued efforts to assist member countries in the pursuit of sound economic policies, while protecting the poor through appropriate measures, including the use of social safety nets. The Committee also urged the Bank, together with the relevant United Nations agencies, to strengthen further their cooperation in improving the database on poverty, poverty monitoring, and the division of labor among their operational activities of a poverty-oriented nature. Members also underscored the need for the Fund to rely on this improved database in its work on poverty issues.

Foreign Direct Investment and Development

7. The Committee reiterated its view that foreign direct investment (FDI) can make an important contribution to development through the creation of employment, the development of skills, the transfer of technology, the improvement in competitiveness and the expansion of markets. Members welcomed the recent increase in real terms in FDI flows to developing countries. They agreed that the prime responsibility for creating a climate of confidence and attracting FDI rested with the host countries. Members emphasized that adequate macroeconomic stability and growth in the context of adjustment efforts and the promotion of an efficient private sector as well as adequate infrastructure and manpower skills, were crucial factors in this respect. The Committee noted that the policies of the industrial countries, particularly in the areas of macroeconomic policies, the promotion of savings and tax policies, can impact on FDI flows, including those to developing countries given the increasing openness of the latter's economies. Members stressed that all countries should make further efforts to remove trade and investment barriers so as to allow freer flow of goods and capital. Recognizing that FDI would normally tend to flow to the more advanced and credit-worthy developing countries, members stressed the need to explore ways to mobilize and increase FDI flows to low-income countries and lower middle-income countries, particularly in Sub-Saharan Africa. In view of the constraints on FDI flows to low-income countries, the Committee recognized that concessional flows would remain of critical importance to

them. Moreover, in the case of low- and lower middle-income countries, members underscored that high priority should be given to the development of local entrepreneurial skills and an indigenous business sector.

8. Given the close relationship between a strong domestic private sector and FDI, the Committee stressed that both the Bank and the Fund should continue to strengthen their efforts to promote an environment favorable to a higher contribution by the private sector to development and increase the flows of FDI to developing countries. Multilateral institutions were also encouraged to assist the efforts of developing countries in maximizing the developmental impact and the most efficient use of FDI by promoting market-oriented policies and, as appropriate, a stronger legal and regulatory framework. The Committee recognized the need of an overall legal framework which would embody the essential legal principles so as to promote FDI; in this regard, it took note of some proposals, notably by France, and urged the MIGA to consult with other competent institutions and report to the next spring's Development Committee. Recalling their request to the World Bank Group at their September 1990 meeting to give a very high priority to the contribution of the private sector to development and to expand the scope of its activities in this area, members welcomed the recent steps undertaken in the Bank Group, particularly the working party set up by the President, to improve coordination within the Group. The Committee noted that the President of the Bank intends to put forward to the Board of Executive Directors for its consideration a comprehensive plan of action for the World Bank Group to strengthen its role in private sector development. The Committee called on the Bank Group to adopt, in the near future, such a plan of action involving a rigorous and integrated approach to the promotion of the private sector, including an even stronger role for IFC in the development of the Bank Group's policies.

9. The Committee reiterated its view that the work of IFC is of special relevance to the development of the private sector in the developing countries. The Committee emphasized that as part of a strengthened World Bank Group private sector focus, IFC should have adequate resources to meet the growing demand for its services during the 1990s in a financially prudent and regionally balanced manner. In this connection, members agreed that there should be continued negotiations on an IFC capital increase and that a recommendation on its amount and modalities of subscription and payment should be made by the IFC Board of Directors for early consideration by the Board of Governors so that the Corporation could step up significantly its activities.

Impact of Industrial Countries' Policies on Development

10. The Committee took note of the findings of the joint Bank/Fund staff paper which underlines the adverse effects of some of the developed countries' trade, industrial and agricultural policies on the economies of the developing countries. The Committee stressed that all countries, and in particular the developed countries, have a special responsibility to pursue sound macroeconomic, industrial, trade and agricultural

policies in order to promote a more open multilateral trade and payments system and to remove trade and investment barriers. The Committee encouraged developed countries to take steps to ensure greater transparency and awareness in their countries of the costs and distorting effects of trade restrictive measures. The Committee welcomed the market-oriented reforms and the trade liberalization measures implemented in recent years by an increasing number of developing countries and encouraged them to continue and broaden this progress and to increasingly integrate themselves into the multilateral trading system.

11. Members heard from the Director General of the General Agreement on Tariffs and Trade (GATT) on the prospects of the Uruguay Round of multilateral trade negotiations. The Committee reiterated the crucial importance it attaches to the trade liberalization and global trade expansion that would follow the successful outcome of these trade negotiations. Members expressed deep concern about the potentially serious negative impact that a failure would have for the global economy. They urged all participants, particularly the major developed countries, to increase their efforts to avoid further delay in reaching a successful conclusion of the Uruguay Round in areas such as agriculture, textiles and clothing, and tropical products which are of particular importance to developing countries and in strengthening GATT rules and in developing disciplines in new areas. Noting the emergence of an increasing number of regional trading arrangements, the Committee emphasized that such arrangements should be part of, rather than an alternative to, wider efforts at promoting multilateral trade liberalization based on the GATT's non-discriminatory principles.

12. The Committee urged the Bank and the Fund to follow up and continue to evaluate closely developments in respect of trade, industrial and agricultural policies and their impact on the development prospects of developing countries. The two institutions were encouraged to coordinate closely their work on these issues with the GATT. Members noted that the findings of the GATT's Trade Policy Reviews can provide valuable inputs for the reports prepared from time to time for the Committee on the impact of the industrial countries' trade policies on developing countries. The Committee agreed to keep international trade development issues under consideration at its forthcoming meetings.

The Debt Strategy and its Impact on Development Prospects

13. The Committee reaffirmed its support for the strengthened debt strategy and welcomed the progress achieved so far. Members stressed that the situation of a number of debtors required further attention given the constraint that their debt burden, and in some cases current policies, continued to have on their budgetary positions and ability to attract FDI and the return of flight capital. They urged debtor countries and commercial banks to accelerate their negotiations and to reach agreements that will facilitate the return to normal debtor/creditor financial relations. The Committee encouraged the Bank and the Fund to continue to provide support with the necessary flexibility, under their

established guidelines, for debt and debt service reduction packages negotiated between debtors and the commercial banks.

14. Members welcomed the adaptation of debt restructuring terms introduced recently by the Paris Club bilateral official creditors -- including the lengthening of repayment terms and the option of debt swaps in reschedulings -- to assist several severely indebted lower middle-income countries. The Committee noted that the debt problems of many of these countries remained very difficult and there was a need to monitor closely their progress toward resumption of normal financial relations with their creditors and economic growth.

15. Members expressed their concern that, notwithstanding the application of the Toronto terms, the prospects for external viability in many of the severely indebted low-income countries remained highly uncertain. The Committee therefore encouraged the Paris Club creditors to complete by mid-1991 their review of the implementation of the existing options and their consideration of additional debt relief measures which could be taken for the low-income countries in the light of proposals made by a number of creditor countries.

16. Members reiterated that it was also important to recognize the needs of a number of debtor countries which have been pursuing appropriate policies and which have not restructured their external debt obligations even under difficult circumstances. They were of the view that the efforts of those countries to maintain normal debtor/creditor financial relations should be encouraged and supported. The Committee urged that in response to the needs of those countries, special efforts be made to provide them with sufficient financial flows, including multilateral flows, to support adjustment programs, development and poverty reduction.

Global Environmental Issues

17. Recalling its support for the establishment of a facility to address environmental problems which transcend national borders, the Committee welcomed the establishment of the joint World Bank, UNEP and UNDP Global Environment Facility. The Committee underlined the role that this facility could play as the mechanism to provide additional assistance to developing countries in the framework of ongoing negotiations on the global environment. Members underscored the importance of this pilot facility and urged that relevant experience derived from its operations in dealing with global environmental challenges be taken into consideration in the World Bank's regular operations. The Committee stressed the importance of open and transparent approaches to addressing environmental challenges. The Committee urged that these and other organizational issues be addressed early on to ensure that the Facility achieves the objectives envisioned by participants.

18. Members noted the recent initiatives taken in the IMF toward greater awareness of environmental concerns in its work.

IMF Quota Increase

19. Taking account of the significant increase in the number of countries seeking Fund assistance, the Committee noted with satisfaction that a number of Fund member countries had already consented to the Fund quota increase and the associated Third Amendment of the Articles of Agreement. The Committee urged other members to move without delay toward consent and acceptance.

Future Work Program of the Committee

20. The Committee agreed to discuss at its next meeting: (a) the development priorities of the 1990s and their implications for the World Bank Group; and (b) the development of human resources in developing countries. It requested the Bank to prepare issues papers on these topics, in consultation with the Fund, drawing as appropriate on the 1991 World Development Report. In addition, members requested progress reports on the Bank's women in development activities and on the Bank Group's progress in expanding its private sector activities. They also called on the Bank and the Fund to prepare jointly, for their consideration at their next meeting, a detailed progress report on the implementation of the debt strategy and its impact on the development prospects of all severely indebted countries.

Other Business

21. The Committee appointed Mr. Peter Mountfield (United Kingdom) to succeed the Executive Secretary, Mr. Yves L. Fortin (Canada) for a three-year term with effect from July 1, 1991. Members placed on record their deep appreciation for Mr. Fortin's dedication and for the major contribution he has made in improving the functioning of the Committee and its policy orientation. Members also thanked the Government of Canada for making Mr. Fortin available to the Committee.

22. The Committee expressed its profound appreciation to the retiring President of the World Bank, Mr. Barber Conable, for the distinguished contribution he has made during his five-year term in office to the cause of development and the reduction of poverty in the developing world and for his support for the work of the Development Committee. Members wished him the very best in his future endeavors.

23. The Committee agreed to meet again in Bangkok, Thailand on October 14, 1991.