



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



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COMMUNIQUE

1. The 58th meeting of the Development Committee was held in Washington, D.C. on October 5, 1998 under the chairmanship of Mr. Tarrin Nimmanahaeminda, Minister of Finance of Thailand.¹
2. **Anwar Ibrahim** The Committee expressed its great appreciation to Mr. Anwar Ibrahim, who had served so ably as Chairman of the Committee.
3. **Implications of the Asian Crisis** The Committee paid particular attention on this occasion to development priorities and the response of the World Bank Group.
4. Ministers recognized that the economic and social aftershocks of the crisis were more severe than earlier anticipated. The crisis had now spread beyond Indonesia, Korea, Thailand and Malaysia, and its global ramifications had increased the vulnerability of all countries. Ministers therefore noted the need to support an early and sustained recovery in East Asia and contain the risks of crises elsewhere, and to assist countries more generally to develop the prerequisites for sustainable economic growth in a more integrated international financial and economic system.
5. Ministers agreed that a concerted strategy for restoring sustainable growth and reversing the dramatic increase in poverty in East Asia should include the following key elements: i) maintaining and accelerating progress on structural reforms, including governance structures required for the efficient working of markets; ii) restructuring the banking system and corporate sectors and, in the short term, restoring credit to viable businesses; iii) mobilizing necessary resources to finance growth; iv) regenerating demand; and v) protecting the environment. Crucial to all these elements is a focus on social concerns and the need to mitigate the most harmful effects of the crisis on the poor.

¹ Mr. James D. Wolfensohn, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Abdelkrim Harchaoui, Minister of Finance of Algeria and Chairman of the Group of Twenty-Four, addressed the plenary session. Observers from a number of international and regional organizations also attended.

6. Ministers further noted that, if it were allowed to continue, financial turmoil could result in major setbacks to the global economy, and particularly to the progress most developing countries had achieved in the 1990s. The Committee agreed that actions were needed to help restore confidence and prevent contagion in the event of market pressures. Emerging market countries should strengthen their policies and institutions at an early stage to minimize their vulnerability to adverse shifts in investor sentiment. Industrial countries should take early and decisive actions to help regain or maintain growth momentum and global financial stability. All countries should continue the process of market opening and resist protectionism. All countries and the IFIs need to attach high priority to the promotion of good governance and the elimination of corruption.

7. Ministers stressed that, given the magnitude of reversals in capital flows that East Asia and other regions had experienced, resumption of private flows was key to recovery. Ministers also emphasized the important catalytic role played by official flows from multilateral agencies and bilateral sources.

8. In this context, the Committee agreed that, beyond responding to the immediate crisis, and in parallel with ongoing efforts to improve the international financial architecture, concerted actions were needed to help countries bolster their structural and social policies and institutions. These include strengthening the financial sector; establishing a sound business environment; improving public and private sector governance, particularly transparency and accountability; and strengthening social protection. Ministers noted that the primary role of the World Bank was to help eliminate poverty and improve social well-being, in line with international development goals. They therefore encouraged the World Bank to work with the United Nations, the Fund and other partners to develop general principles of good practice in structural and social policies (including labor standards).

9. **Bank Group Response** The Committee welcomed the prompt response of the Bank Group to the crisis, including the pledge of up to \$17 billion in financing for affected countries in the region. Ministers expressed appreciation for the significant steps already taken by the Bank Group to assist countries to address the social consequences of the crisis; restructure their financial and corporate sectors; and strengthen structural reforms. They welcomed the Bank Group's intention to further enhance, within the Strategic Compact, its capacity (including through consideration of new instruments) to support member governments' structural and social development programs.

10. The Committee noted the decisions and recommendations recently made by the Executive Board related to the Bank's income dynamics. Given the increasing demands on the Bank's financial resources, Ministers asked the Executive Board to explore appropriate options to ensure that the Bank remains able to respond quickly and effectively to the development needs of its members. Ministers reaffirmed the fundamental importance of maintaining a financially strong Bank.

11. **Bank-Fund Collaboration** The Committee noted the important roles to be played by the International Financial Institutions in meeting the range of new challenges facing the international community. In this context, the Committee expressed its appreciation for the major efforts undertaken by the Fund and Bank to help countries deal with the crisis and its broad consequences. They stressed the importance they attached to effective coordination between the Bank and the Fund. Ministers noted the joint report from the Fund's Managing Director and the Bank's President which set out the respective responsibilities of the two institutions and how each would support the macroeconomic policy and structural reform agendas of member governments. Ministers welcomed the proposed measures to improve operational mechanisms and the environment for collaboration, including information sharing, so as to enhance the institutions' capacity to serve member countries. Ministers requested that the Bank and Fund Executive Boards keep implementation of these actions, as well as the scope for further strengthening of collaboration, under review.

12. Ministers also encouraged the Executive Boards of the Fund and Bank to review the roles of the Interim and Development Committees as part of the ongoing consideration of steps to strengthen the international financial architecture.

13. **Partnerships** Ministers also welcomed the continued deepening of the partnerships between the World Bank, the Asian and African Development Banks, and other multilateral and bilateral agencies in addressing the crisis and its longer-term impact. (Ministers looked forward to receiving at the Committee's next meeting the Bank President's report on progress achieved in strengthening World Bank cooperation with regional development banks.) Given the importance of trade for sustained recovery, Ministers urged the IFIs to intensify cooperation in the Integrated Framework for Trade Related Technical Assistance for the Least Developing Countries. They also encouraged the World Bank to work closely with WTO, UNCTAD and other interested parties in building poor countries' capacity to prepare for a new global trade round. Ministers also urged enhanced cooperation between IFIs and the United Nations system at the country level.

14. **Implementation of the Debt Initiative for Heavily Indebted Poor Countries (HIPC)** Ministers were encouraged by the progress made during the Initiative's first two years. They noted that nine countries have so far reached the decision point, and total commitments to the seven requiring assistance under the Initiative amount to about \$6.1 billion in nominal debt service relief (\$3.1 billion in NPV terms). Ministers welcomed the fact that Bolivia had reached its completion point, based on continued strong policy performance; savings in nominal debt service were about \$760 million (or about \$450 million in NPV terms). The Committee also welcomed the recent agreement that Mali had reached its decision point and was expected to reach its completion point in December 1999.

15. Ministers expressed continued strong support for the Initiative. They endorsed the extension of the entry deadline, from September 1998 until end-2000, and the decision to add a degree of flexibility in its evaluation of track records of policy performance for countries receiving post-conflict assistance. Ministers encouraged potentially eligible countries, including those emerging from conflict, to undertake the necessary Bank/Fund supported

programs as soon as possible so that by the year 2000 every eligible country is included in the Initiative. They also stressed the importance of additional contributions to the Initiative to assist all multilateral institutions to meet their share of the cost, including, in particular, the African Development Bank.

16. **Ministers encouraged the establishment of closer ties between debt relief and support for poverty reduction, as ways of making progress toward achievement of the international development targets. Ministers also supported the plan to carry out a comprehensive review of the Initiative, including an update of cost estimates, as early as 1999.**

17. **Assistance to Post-Conflict Countries** Ministers discussed the special problems faced by post-conflict countries. They noted that a wide range of support had been provided these countries by the Bank and Fund, along with the UN System and bilateral partners. Ministers encouraged them, within their respective mandates, to assist these countries with effective conflict prevention policies, thereby paving the way for a durable and successful post-conflict resolution. Ministers recognized, however, that in a number of cases, especially those with large and protracted arrears to multilateral institutions, the international community should explore additional ways to provide assistance more quickly and effectively. In particular, Ministers emphasized the need to provide (and, where needed, increase) positive net transfers from official creditors to post-conflict countries that are adopting sound economic and social policies. The Committee welcomed the initial work done by the Bank and the Fund in identifying the issues. Ministers recognized that providing additional assistance, especially from the IFIs, raised significant policy and resource issues which would need to be considered more fully. Given the need to provide more effective support to post-conflict countries, Ministers requested that the Bank and the Fund, in cooperation with the African Development Bank and other major creditors, develop an approach to guide assistance to these countries on a case-by-case basis, taking account of the specific capabilities of each institution. The Bank and Fund were asked to report back to the Committee at its next meeting.

18. **IMF and IDA Resources** Ministers urged all members to implement the agreed IMF quota increase without delay to ensure the Fund has adequate resources to meet the substantial additional demands placed upon it. Ministers also stressed the urgency of securing the financing of the ESAF. Moreover, given the vital need for concessional resources to sustain support for poverty reduction in poor countries, particularly in Africa, they urged IDA Deputies to reach a successful conclusion of IDA 12 negotiations before the end of 1998.

19. **Executive Secretary** The Committee extended Alexander Shakow's term as Executive Secretary until October 1999.

20. **Next Meeting** The Committee's next meeting is provisionally scheduled for April 28, 1999 in Washington, DC.