



DEVELOPMENT
COMMITTEE

NUMBER ONE

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**The
Development
Committee**

ITS FIRST TEN YEARS

The Development Committee
Its First Ten Years
1974–1984

Joint Ministerial Committee
of the Boards of Governors
of the World Bank and the International Monetary Fund
on the
Transfer of Real Resources to Developing Countries
(Development Committee)
WASHINGTON, D.C., U.S.A.

Established in October 1974, the Development Committee is known formally as the Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries. The Committee's members, usually Ministers of Finance, are appointed in turn for successive periods of two years by one of the countries or groups of countries represented on the Bank's or the Fund's Board of Executive Directors. The Committee is required to advise and report to the Boards of Governors of the Bank and the Fund on all aspects of the broad questions of the transfer of real resources to developing countries, and to make suggestions for consideration by those concerned regarding the implementation of its conclusions.

The International Bank for Reconstruction and Development (IBRD) and its affiliate, the International Development Association (IDA), together constitute the World Bank. The International Finance Corporation (IFC) is another affiliate of the IBRD.

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Foreword

As chairman of the Development Committee, I welcome the publication of this brochure on the occasion of its tenth anniversary. During the period from 1974 to 1984 that the Committee has been in existence, the world economy has undergone a number of dramatic changes. They have affected virtually every country on the globe and the lives of the majority of the people in these countries. And yet, the vast scope and the sweeping pace of these changes still remain to be fully grasped to evoke a meaningful and constructive international response to them. No mechanism has been developed that would ensure a smooth process of change and harness the forces of change for a better future for the world economy.

In this difficult environment the Development Committee has served as a forum for evolving agreed pragmatic responses from the world community on pressing issues of global development. It has dealt with a number of issues of importance for the objectives served by the two institutions that it represents, the World Bank and the International Monetary Fund. The Development Committee has demonstrated its capacity to foster understanding between developed and developing countries on issues of international significance. It could thus pave the way for clearer orientation and outlook for the global economy in the coming years, provided it continues to receive the requisite political support.

The world community of nations, developed and developing, must come to terms with emerging changes in the structure of the global economy. The process of change must not be allowed to unfold entirely on its own; it should be consciously guided into channels that will be of benefit to all mankind. The expression "an interdependent world" is commonly used, and yet there is very little realization of the full meaning and the wide implications of this interdependence. It clearly

signifies that developments taking place in one part of the globe have serious repercussions for people living in other parts of this planet. It is because of this interdependence that the severe recession in industrial countries was followed by an even more severe slowdown in economic activity in developing countries. The same logic should lead us to expect that the present recovery in the industrial countries would in due course translate into economic growth in the Third World.

This may happen over time, but because of the structural change and asymmetry in the global economy, the transmission of benefits to the Third World may be neither quick nor automatic. We can no longer be certain that the old relationships between growth of output and increase in world trade still hold; it is already quite apparent that economic recovery in the industrial countries will not yield to the developing world a level of capital flows close to the one attained in the last decade. If these relationships have indeed changed, then it is imperative that some form of economic engineering on an international scale be undertaken to evolve more positive and beneficial linkages. This economic engineering will involve setting developing and developed countries alike on a well-measured and clearly charted route to economic adjustment, with the necessary strengthening of the role of international institutions.

Many developing countries have already embarked upon such a route, often in collaboration with the International Monetary Fund and the World Bank. The developed countries too have the responsibility to review their policies with a view to ensuring that they facilitate the process of adjustment in the developing countries. The extreme volatility in exchange rates and the unprecedented rise in nominal and real interest rates which have occurred in the recent past are largely a reflection of financial policies and developments in the industrialized countries. However desirable they may be from the point of view of the domestic policy requirements of these nations, such policies can clearly be seen as imposing a serious burden on the developing world. If the developing countries are to earn enough foreign exchange to pay for their vital imports and meet their financial obligations, they will need liberal access to the markets of the industrialized countries. They will also need an adequate flow of capital to finance their economic development; a reverse net flow of capital from the poor countries to the industrialized countries would not only disrupt the adjustment process

but could also endanger the functioning of the international trading and monetary system.

The social cost of adjustment in developing countries has been very high. It can continue to be politically feasible only if the governments of the developed countries are also prepared to make complementary adjustments in their own policies to reflect a sympathetic understanding of the problems faced by the developing countries and a willingness to accept fair burden-sharing. These changes in policies should manifest themselves in additional transfers of real resources to developing nations in the form of increased net capital flows and a higher volume of trade. Without these, the pains of adjustment in the developing world might seriously threaten to cross the threshold of social and political tolerance. This should be of common concern to all of us who live in this increasingly interdependent world.

It is questions such as these pertaining to the process of adjustment in both industrial and developing countries that the Development Committee is especially equipped to handle. In the interest of the welfare of future generations, more vision and courage are required to lay the ground for the mutually beneficial coexistence of billions of people. There is now a growing recognition that the Development Committee is an appropriate forum for playing this role.

GHULAM ISHAQ KHAN

Islamabad
August 1984

The Development Committee Its First Ten Years, 1974–1984

Ten years ago, the member countries of the Bretton Woods Institutions, the International Monetary Fund (IMF) and the World Bank, created two committees at the ministerial level. One is known as the Interim Committee of the International Monetary Fund and deals with monetary matters. The other body is known as the Development Committee. As indicated by its official title—Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries—the Development Committee is a joint body of both the Fund and the Bank. This brochure, published on its tenth anniversary, describes the Committee's origin, special features, and achievements.

Origin of the Committee

In 1972 a Committee on the Reform of the International Monetary System and Related Issues, the so-called Committee of Twenty, was established. After two years of deliberations, it presented its report, together with an "Outline of Reform." On the institutional side, it suggested that two ministerial-level committees be created: one to advise on monetary matters and one to study and recommend measures on the broad question of the transfer of real resources to developing countries, which the Committee agreed should be given encouragement. The Development Committee, as the latter came to be called, was established by parallel resolutions of the Boards of Governors of the Bank and the Fund at their annual meetings in October 1974.

The Committee was intended to provide a focal point in the structure of international economic cooperation for the formation of a comprehensive overview of diverse international activities in the development area, for the efficient and prompt consideration of development issues, and for the coordination of international efforts to deal with the problems of financing development. It was also to consider the question

of the transfer of real resources to developing countries in relation to existing or prospective arrangements among countries, including those involved in international trade and payments, the flow of capital, investment, and official development assistance.

The Interim and the Development Committees were both established in response to the recommendations of the "Outline of Reform." These committees have usually met in tandem, and many ministers are members of both.

Composition of the Development Committee

The members are designated by each member government of the Bank or the Fund that appoints an Executive Director or by a group of members that elects an Executive Director. The term of office is for two years, and the composition alternates between that of the Bank's Executive Directors (currently twenty-one members) and that of the Fund's Executive Board (currently twenty-two members). In addition, each member and group appoints seven associates; this enables members of the "constituencies" that do not have representation on the Committee to participate in the meetings. The current membership of the Committee and the countries they represent are listed in Appendix A.

The chairman of the Committee is selected from among its members. Since the inaugural meeting of the Committee in October 1974 there have been five chairmen: Henri Konan Bédié, Minister of Economy and Finance of the Ivory Coast (1974-76); Cesar E. A. Virata, Minister of Finance of the Philippines (1976-80); David Ibarra Muñoz, Secretary of Finance and Public Credit of Mexico (1980-82); and Manuel Ulloa Elías, Prime Minister and Minister of Economy, Finance and Commerce of Peru (March to September 1982). The present chairman is Ghulam Ishaq Khan, Minister for Finance, Commerce, and Economic Coordination of Pakistan.

While the chairmen have traditionally been selected from among the developing countries, the executive secretaries have in practice been appointed by the Committee from the developed countries. The Committee has been served by four executive secretaries elected by the Committee: Henry J. Costanzo (United States); Sir Richard King, K.C.B., M.C. (United Kingdom); Hans E. Kastoft (Denmark); and, as of July 1, 1984, by Fritz Fischer (Federal Republic of Germany).

Character and Work Methods

The Development Committee is a unique forum of high-ranking leaders in finance and development from governments of the industrial and developing world. It is not a decisionmaking body, but is nevertheless a forum of ministers concerned with finance and development representing the world community at large. It provides an opportunity for constructive and orderly dialogue among groups of countries at various stages of development. By providing a forum where views on international development issues can be aired, the Committee seeks to improve understanding of these issues and to reach a consensus at a high political level which could facilitate decisionmaking in the appropriate bodies such as the executive boards of the Bank and the Fund. The Committee's role is therefore to provide advice and guidance. However, it also exercises monitoring and coordinating functions in the development field.

It was always envisaged that the deliberations of the Development Committee should be closely coordinated with the work of the Executive Directors of the Bank and the Fund. In line with this objective, the proposed agenda and the papers prepared for the meetings of the Committee are submitted to the executive boards of both the Bank and the Fund for preliminary review. The Resolutions establishing the Committee (Appendix B) also provide for the President of the Bank and the Managing Director of the Fund to participate in all meetings of the Committee. The technical work and administrative support for the Committee are carried out by the staffs of the Bank and the Fund, as requested by the Committee.

As part of its coordinating function, heads of other international financial or economic organizations are invited to participate in the meetings of the Committee as observers. During 1983–84 representatives from the following organizations participated: the United Nations, the United Nations Development Programme (UNDP), the General Agreement on Tariffs and Trade (GATT), the United Nations Conference on Trade and Development (UNCTAD), the International Fund for Agricultural Development (IFAD), the African Development Bank (AFDB), the Asian Development Bank (ASDB), the Inter-American Development Bank (IDB), the Arab Bank for Economic Development in Africa (ABEDA), the Arab Fund for Economic and Social Development (AFESD), the Commission of the European Communities (CEC), the

European Investment Bank (EIB), the Commonwealth Secretariat, the Organisation for Economic Co-operation and Development (OECD), the Development Assistance Committee (DAC), the Islamic Development Bank (ISDB), and the OPEC Fund for International Development. In addition, Switzerland is represented as an observer at the Committee.

The Committee usually convenes twice a year, around the same time as the Interim Committee in the spring and, in the fall, at the time of the annual meetings of the Bank and the Fund. In addition to discussions in plenary, there are informal sessions that provide members an opportunity for frank exchanges and thus facilitate productive discussions of difficult and often controversial economic issues. These are all the more important since the Committee has managed to avoid a sterile politicization of debate. At the close of the meetings there is usually a press communiqué that summarizes the conclusions of the meeting. (All communiqués of the Committee are included as Appendix C.) The fact that ministers agree on a communiqué carries weight both nationally and internationally.

The Achievements of the Committee

The matters that claimed the Committee's early attention related to the economic crisis of 1973–74, which seriously affected some of the least developed countries. The Committee lent its full support to the creation of a new temporary lending facility of the Bank (the so-called Third Window) to provide subsidized interest loans to developing countries. It also supported the establishment of a Trust Fund to be administered by the International Monetary Fund to provide additional concessional resources to meet the balance of payments needs of the low-income countries.

Against the background of the world economic situation and the prospects of developing countries, the Committee has paid special attention to the subject of concessional flows to developing countries. In particular, the level and quality of official development assistance and its effective use have been a topic of constant review. The Committee has notably called for adequate replenishment of funds for the Bank's affiliate, the International Development Association (IDA), and has strongly supported appropriate levels of replenishment for this most important single source of multilateral concessional assistance. It has also reviewed and pressed for the expansion of the concessional

resources of the three regional development banks and the International Fund for Agricultural Development.

In the field of nonconcessional flows, the Committee has several times discussed the capital requirements of developing countries and the bilateral and multilateral channels through which such requirements should be met. At various times the Committee has reviewed the lending operations of multilateral development institutions and their capital base, private capital flows, access to capital markets, and cofinancing with official and nonofficial agencies. Similarly, an extensive and detailed study has been undertaken on the importance and the role of private foreign investment in developing countries.

The Committee has also undertaken a serious and thorough review of a large number of recommendations made by the Brandt Commission* and in the comprehensive document, "Program of Immediate Action," on international monetary reform and a number of development issues, prepared by the Group of Twenty-four (a group of ministers from developing countries).

Commodities and stabilization of export earnings are of great importance to many developing countries and have been discussed at length by the Committee on more than one occasion. Many possible measures have been considered, and the IMF has taken action to adapt its relevant facilities.

More recently, the Committee has taken special notice of the grave situation in Sub-Saharan Africa. It has focused international attention on the serious crisis in the region and is urging improvements in both domestic programs and levels of external support.

Other subjects that have evoked the special concern of the Committee are related to the linkages between trade and the promotion of development, with particular emphasis on the rollback of protectionism and the restoration of openness to markets. Attention has also been devoted to the external debt situation of developing countries. Trade liberalization, improved domestic policies in all countries, and large flows of external finance to developing countries have been regarded by the Committee as mutually reinforcing actions which would provide a critical impetus to world recovery and would accelerate growth and the alleviation of poverty in developing countries.

In summary, the Committee's work leads to a better and more

* The Independent Commission on International Development Issues, Willy Brandt, chairman.

enlightened understanding of issues, provides guidance to the executive boards of the Bank and the Fund, and helps in the search at the national level for policies to achieve mutually beneficial solutions to economic problems. It is difficult to measure this aspect of the Committee's work in concrete or precise terms, but despite the limitations which the Committee has faced in its operations, few will deny the Committee's value or contribution.

Task Forces

Through its task forces, the Committee has undertaken detailed examinations of some selected topics and prepared comprehensive studies on nonconcessional flows, on the improvement of developing countries' access to private capital markets, and on the role and importance of private foreign investment. A Task Force on Concessional Flows is currently entering the final stage of its deliberations. Its report on the mandate, volume, quality, and effectiveness of aid is awaited with great interest.

Outlook

The objective for which the Committee was established remains important, and the need for such a body of high-level policymakers is probably even greater today. The Committee's functions have been reviewed from time to time and the conclusion has been that it performs a very useful function in providing a forum for constructive and policy-oriented dialogue at the ministerial level on current development issues. The reviews have also resulted in a streamlining of the Committee's procedures. The acute and persistent difficulties which the world economy faces in the period ahead presents an occasion for an informed debate and a search for solutions to the problems of financing development. In this context, the Development Committee, with its broad responsibilities, its compact size, its representative character, its association with the Bank and the Fund and the expertise of its members, provides an appropriate forum to promote international consensus and decisions on a number of vital development issues of interest to the developing and developed countries. Given the present difficult environment, careful stewardship of the Committee is required so that it continues to play an effective role in the world economy, and for the developing countries in particular.

Members of the Development Committee June 30, 1984

- His Excellency Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade, Belgium
representing Austria, Belgium, Hungary, Luxembourg, and Turkey
- His Excellency Jacques Delors, Minister of Economy, Finance and Budget, France
representing France
- His Excellency Luis Escobar, Minister of Finance, Chile
representing Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay
- His Excellency Kjell-Olof Feldt, Minister of Finance, Sweden
representing Denmark, Finland, Iceland, Norway, and Sweden
- The Honorable Giovanni Goria, Minister of the Treasury, Italy
representing Greece, Italy, and Portugal
- His Excellency Sommai Hoontrakool, Minister of Finance, Thailand
representing Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam
- His Excellency Ghulam Ishaq Khan, Minister for Finance, Commerce and Economic Coordination, Pakistan
representing Bahrain, Arab Republic of Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Pakistan, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, and Yemen Arab Republic
- His Excellency Abdellatif Jouahri, Minister of Finance, Morocco
representing Democratic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Socialist People's Libyan Arab Jamahiriya, Morocco, Tunisia, and People's Democratic Republic of Yemen
- The Honourable P. J. Keating, Treasurer, Australia
representing Australia, Republic of Korea, New Zealand, Papua New Guinea, Solomon Islands, Vanuatu, and Western Samoa
- His Excellency Abdoulaye Koné, Minister of Economy and Finance, Ivory Coast
representing Benin, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, People's Republic of Congo, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Somalia, Togo, Upper Volta, and Zaire

The Honourable Marc Lalonde, Minister of Finance, Canada
representing Bahamas, Barbados, Belize, Canada, Dominica, Granada,
Guyana, Ireland, Jamaica, St. Lucia, and St. Vincent

The Right Honourable Nigel Lawson, M.P., Chancellor of the Exchequer,
United Kingdom
representing United Kingdom

The Honourable K. A. Malima, Minister for Planning and Economic
Affairs, Tanzania
representing Botswana, Burundi, Ethiopia, The Gambia, Guinea,
Kenya, Lesotho, Liberia, Malawi, Nigeria, Seychelles, Sierra Leone,
Sudan, Swaziland, Tanzania, Trinidad and Tobago, Uganda, Zambia,
and Zimbabwe

The Honourable Pranab Kumar Mukherjee, Minister of Finance, India
representing Bangladesh, Bhutan, India, and Democratic Socialist
Republic of Sri Lanka

The Honorable Donald T. Regan, Secretary of the Treasury, United States
representing United States

His Excellency H. O. Ruding, Minister of Finance, Netherlands
representing Cyprus, Israel, Netherlands, Romania, and Yugoslavia

His Excellency Jesus Silva Herzog, Secretary of Finance and Public Credit,
Mexico
representing Costa Rica, El Salvador, Guatemala, Honduras, Mexico,
Nicaragua, Panama, Spain, Suriname, and Venezuela

His Excellency Noboru Takeshita, Minister of Finance, Japan
representing Japan

The Honorable José Santos Taveras, Governor, Central Bank, Dominican
Republic
representing Brazil, Colombia, Dominican Republic, Ecuador, Haiti,
and Philippines

His Excellency Wang Bingqian, State Counsellor and Minister of Finance,
China
representing China

His Excellency Juergen Warnke, Federal Minister for Economic
Cooperation, the Federal Republic of Germany
representing the Federal Republic of Germany

Text of Parallel IBRD and IMF Resolutions Establishing the Development Committee*

WHEREAS the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System has recommended the establishment of a joint ministerial committee of the Boards of Governors of the International Monetary Fund (the Fund) and the International Bank for Reconstruction and Development (the Bank) to carry forward the study of the broad question of the transfer of real resources to developing countries and to recommend measures to be adopted in order to implement its conclusions;

WHEREAS it is desirable to consider the question of the transfer of real resources to developing countries in relation to existing or prospective arrangements among countries, including those involving international trade and payments, the flow of capital, investment, and official development assistance;

WHEREAS the said Committee has invited the Managing Director of the Fund to discuss with the President of the Bank the preparation of appropriate parallel draft resolutions on the establishment of such a joint ministerial committee for adoption by the respective Boards of Governors of the Fund and Bank;

WHEREAS pursuant to such discussions the President of the Bank and the Managing Director of the Fund have proposed to the Executive Directors of the Bank and Fund, respectively, and the Executive Directors of the Bank have approved the submission of this Draft Resolution to the Board of Governors of the Bank and the Executive Directors of the Fund have approved the submission of a parallel Draft Resolution to the Board of Governors of the Fund;

WHEREAS the Committee as envisaged would be helpful in providing a focal point in the structure of international economic cooperation for formation of a comprehensive overview of diverse international activities in the development area, for efficient and prompt consideration of development issues, and for coordination of international efforts to deal with problems of financing development; and

WHEREAS the Board of Governors of the Fund [Bank] is considering the said parallel resolution;

* IBRD Governors Resolution 294, October 2, 1974; IMF Governors Resolution 29-9, October 2, 1974.

NOW, THEREFORE, the Board of Governors hereby RESOLVES;

1. *Establishment and Composition of Joint Ministerial Committee*

- (a) There is established a Joint Ministerial Committee of the Boards of Governors of the Bank and Fund on the Transfer of Real Resources to Developing Countries (hereinafter called the Development Committee).
- (b) The members of the Development Committee shall be governors of the Bank, governors of the Fund, ministers, or others of comparable rank.
- (c) The members of the Development Committee shall be appointed in turn for successive periods of two years by the members of the Bank and the members of the Fund. The members of the Bank shall appoint the members of the Committee for the first period of two years, which shall run from the date of the adoption of this Resolution until the date of the regular election of executive directors in 1976.
- (d) Each member government of the Bank or the Fund, as the case may be, that appoints an executive director and each group of member governments of the Bank or of the Fund, as the case may be, that elects an executive director shall appoint one member of the Development Committee and up to seven associates, and, for any meeting when the member of the committee is not present, may appoint an alternate with full power to act for the member at such meeting.
- (e) Each member and associate shall serve until a new appointment is made by the member government or member governments of the Bank or the Fund, as the case may be, that are entitled to make the appointment or until the next succeeding regular election of executive directors, whichever is earlier.

2. *Chairman*

The Development Committee shall select a Chairman from among its members, who shall serve for such period as the Committee determines. The Chairman of the Boards of Governors of the Bank and the Fund, or a governor designated by him shall convene the first meeting of the Committee and shall preside over it until the Chairman has been selected.

3. *Meetings*

- (a) Members of the Development Committee, associates, and the executive directors of the Bank and the Fund, or in their absence their alternates, shall be entitled to participate in meetings of the

Committee, unless the Committee decides to hold a session restricted to members, the President of the Bank, and the Managing Director of the Fund. Participation in respect of each item on the agenda of a meeting shall be limited to one person in respect of each member government or group of member governments that appoint a member of the Committee.

- (b) The President of the Bank and the Managing Director of the Fund shall be entitled to participate in all meetings of the Development Committee, and each may designate a representative to participate in his place at any meeting when he is not present. Each may be accompanied normally by two members of his staff, at any unrestricted session of the Committee.
- (c) The Development Committee shall invite the heads of other international financial or economic organizations, as well as other persons, to attend or participate in meetings of the Committee relating to their areas of responsibility.

4. *Terms of Reference*

- (a) The Development Committee shall maintain an overview of the development process and shall advise and report to the Boards of Governors of the Bank and the Fund on all aspects of the broad question of the transfer of real resources to developing countries, and shall make suggestions for consideration by those concerned regarding the implementation of its conclusions. The Committee shall review, on a continuing basis, the progress made in fulfillment of its suggestions.
- (b) The Development Committee shall establish a detailed program of work, taking account of the topics listed in Annex 10 of the Outline of Reform. The Committee in carrying out its work shall bear in mind the need for coordination with other international bodies.
- (c) The Development Committee shall give urgent attention to the problems of (i) the least developed countries and (ii) those developing countries most seriously affected by balance of payments difficulties in the current situation.

5. *Procedures*

- (a) The Development Committee shall meet at the time of the annual meetings of the Boards of Governors of the Bank and the Fund and, in addition, as often as required. The Chairman may call meetings after consulting the members of the Committee and shall

consult them on calling a meeting if so requested by any member of the Committee.

- (b) A quorum for any meeting of the Development Committee shall be two-thirds of the members of the Committee.
- (c) The Development Committee may establish sub-committees or working groups from time to time.
- (d) The Committee shall appoint an Executive Secretary, who shall be entitled to participate in all Committee meetings. The Executive Secretary, supported by a small staff as necessary, and drawing on the staffs of the Bank and the Fund to the maximum extent feasible, shall be responsible to the Committee for carrying out the work directed by the Committee.
- (e) Appropriate arrangements shall be made for the coordination of the work of the Development Committee and the work of the Executive Directors of the Bank and the Fund.
- (f) The President of the Bank and the Managing Director of the Fund shall arrange to carry out technical work requested by the Committee and provide administrative support for the Committee within the competence of their organizations.
- (g) The Committee may request assistance from international organizations or other bodies or individuals in connection with the preparation of its work.
- (h) In reporting any suggestions or views of the Development Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified.
- (i) The Development Committee shall report not less than once a year to the Boards of Governors on the progress of its work and may publish such other reports as it deems desirable to carry out its purposes.
- (j) The Development Committee may determine any aspect of its procedure that is not established by this Resolution.

6. *Administrative Costs*

The Bank and the Fund shall make such financial appropriations, in equal proportions, as are necessary for carrying out the work of the Development Committee.

7. *Review*

At the end of two years from the effective date of this Resolution, the Boards of Governors of the Fund and the Bank shall review the performance of the Committee, and shall take such action as they deem appropriate.

Press Communiqués

October 2, 1974

First Meeting

The Ministers of the Committee of Twenty on the Reform of the International Monetary System and Related Issues recommended at their meeting in June 1974 the establishment of a joint ministerial committee of the Fund and World Bank to carry forward the study of the broad question of the transfer of real resources to developing countries, and to recommend measures to be adopted in order to implement its conclusions. The Ministers further recommended that the joint ministerial committee should also give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situation, bearing in mind the need for coordination with other international bodies. The Development Committee held its first meeting today.

Mr. Henri Konan Bédié, Governor from Ivory Coast, was elected Chairman. The Managing Director of the Fund and President of the Bank participated in the meeting.

It was agreed that the immediate focus of the Committee's work would be on the analysis of the situation of the most seriously affected developing and the least developed countries, and of measures to adjust to the new outlook for international commodity prices. Additional topics for the Committee's consideration over the longer term were discussed, and the Executive Secretary who will be appointed shortly will be asked to prepare a recommendation for a detailed work program.

The Committee will meet again tomorrow, Thursday, October 3, 1974.

January 17, 1975

Second Meeting

The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its second meeting in Washington on

January 17, 1975, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. The meeting was held in the headquarters building of the Pan American Health Organization. Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development, and Mr. Johannes Witteveen, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Abdel Wahab Labidi, President of the African Development Bank, Mr. Shiro Inoue, President of the Asian Development Bank, Mr. M. G. Mathur, Deputy Director-General of the GATT, Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank, Mr. E. van Lennep, Secretary-General of the OECD, Mr. Maurice Williams, Chairman of the DAC, Mr. Mahjoob Hassanain, Director of the Economic Department of OPEC, Mr. Gabriel van Laethem, Under Secretary-General of the United Nations, Dr. Raúl Prebisch, Under Secretary-General of the United Nations Emergency Operation, Mr. Gamani Corea, Secretary-General of UNCTAD, and Ambassador Paul Jolles of Switzerland.

The Committee received several reports presented by the Executive Secretary, Mr. Henry J. Costanzo, on the initial work program adopted at the inaugural meeting, related to the situation of the most seriously affected developing countries, measures to adjust to the new outlook in commodity prices, and the future work program of the Committee.

The members of the Committee engaged in a general exchange of views regarding the present situation and prospects of the developing countries. Members noted that many developing countries found themselves in serious difficulties as a result of substantial adverse changes in their terms of trade and an inadequate flow of external capital and were being forced to take adjustment measures in many cases harmful to their long-term economic and social development. The members recognized that this situation was likely to continue in the immediate future, and expressed their particular concern over the pressing difficulties in prospect for the poorest and the most seriously affected of the developing countries.

The Committee agreed that the industrialized countries should seek to adopt such adjustment measures considered necessary in their circumstances in such a way as to avoid any reduction in the net flow of real resources to the developing countries, seeking to improve the conditions under which developing countries and international development finance institutions may have access to their capital markets, and to improve the real volume and the quality of official development assistance provided to the developing countries and should avoid trade restrictions that could negatively affect developing countries' exports. The Committee also noted the importance of continued and expanded cooperation, particularly in the transfer of

technology and management skills, between the industrialized and surplus oil-producing countries, in order to promote the development of the latter countries and thereby to assist the overall long-range adjustment process and also in order to promote the development of other developing countries.

The Committee recognized the important and increasing flow of resources being made available by the surplus oil-producing countries to the developing countries and to the international financial institutions. In welcoming such interest and participation on the part of these countries, the Committee agreed that these countries should seek to continue and expand this flow of resources, in accordance with their financial capacity to do so.

The Committee agreed that the situation of the most seriously affected countries requires urgent treatment, and that measures should be taken to cover the short-term requirements created by the present international situation. In this context, the Committee welcomed the action taken by the Interim Committee with respect to a continuation and expansion of an oil facility in the Fund and the establishment of a special account in order to reduce for the most seriously affected members the burden of interest payable by them. The Committee also reviewed several additional possible courses of action. It was agreed that the Executive Boards of the Bank and the Fund should be invited to study the desirability of creating a special trust fund that would provide, for the period immediately ahead, additional highly concessional resources to meet the requirements of the most seriously affected countries, and the possible modalities of such a fund.

The Committee invited the Executive Board of the Bank to undertake an immediate study of the concept of "Third Window" lending by the Bank on terms intermediate between those of the Bank's regular loans and those of IDA's concessional credits. The Committee welcomed the willingness expressed by some members to support and to provide financial resources for such a facility.

For its immediate work program, the Committee instructed the Secretariat to propose such measures as might be considered for early implementation to promote increased use of capital markets by developing countries and to facilitate their access to such markets; to report to the Committee on an appropriate work program in response to the conclusions of the recent World Food Conference on the financing of food, fertilizer, and food production; and to review the adequacy of existing information systems on the flow of resources to the developing countries.

The Committee also agreed that the future work of the Committee should focus on the basic long-term needs of the developing countries and, in this connection, welcomed the intention of the President of the Bank to

initiate urgently a study of the capital requirements of developing countries to maintain a reasonable rate of growth in per capita income for the remainder of the decade. The Committee instructed the Executive Secretary to initiate a broad and continuing review of the question of the transfer of real resources, using as a basis the work of the Committee of Twenty and taking into account the conclusions of the Bank's study, in order to formulate recommendations as to how the required transfers of real resources might be met through existing or new financial mechanisms and arrangements, including arrangements for commodity price stabilization. The Committee welcomed the study to be undertaken by the Executive Directors of the Fund, as agreed by the Interim Committee, on the Fund's facilities for compensatory financing and assistance to international buffer stocks of primary products.

The Committee was glad to note the announcements made at the meeting of actions which permit the full effectiveness of the IDA 4 replenishment, and urged sympathetic consideration of the proposals recently put forward by the IBRD for an increased program of normal Bank lending.

The Committee agreed to hold its next meeting in Paris during the first part of June 1975.

June 13, 1975

Third Meeting

The Joint Ministerial Committee of the Boards of Governors of the Bank and Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its third meeting in Paris on June 12-13, 1975, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. The meeting was held in the Centre de Conférences Internationales. Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. Henry J. Costanzo, Executive Secretary of the Development Committee, took part in the meeting, which was also attended by the following observers: Mr. Abdel Wahab Labidi, President of the African Development Bank; Mr. Chedly Ayari, President of the Arab Bank for Economic Development in Africa; Mr. Saeb Jaroudi, President of the Arab Fund for Economic and Social Development; Mr. Shiro Inoue, President of the Asian Development Bank; Mr. Claude Cheysson, Member of the

Commission of the European Communities; Mr. Maurice Williams, Chairman of the Development Assistance Committee; Mr. Yves Le Portz, President of the European Investment Bank; Mr. M. G. Mathur, Deputy Director-General of the GATT; Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank; Mr. E. van Lennep, Secretary-General of the OECD; Mr. Gabriel van Laethem, Under Secretary-General of the United Nations; Mr. Gamani Corea, Secretary-General of UNCTAD; and Ambassador Paul Jolles of Switzerland.

The Committee reviewed the present situation and the medium- and long-term prospects of the developing countries, in the context of analyses prepared by the IMF on the short-term balance of payments outlook of developing countries, and a World Bank study on the capital requirements of developing countries to the end of this decade. The Committee noted with concern the continued deterioration of the position of most of the developing countries. The Committee broadly endorsed the conclusion of the World Bank study that, if the developing countries are to achieve adequate growth rates in the remaining years of the decade, they will require substantial increases in capital flows, both official and private, and that among other things they will have to undertake at the same time efforts to increase domestic resource mobilization and to expand exports. In particular, the Committee felt that the low-income countries faced a very difficult prospect and recommended that their requirements for concessional assistance should be met on a priority basis. The Committee agreed with the conclusions of the Bank study about the substantial additional requirements for external capital of the middle- and high-income developing countries. Noting the conclusions of the IMF study that the balance of payments needs of the most seriously affected countries would continue to be large in 1975 and 1976, the Committee recommended urgent steps to meet these needs through existing and new mechanisms.

In the light of this situation, the Committee re-emphasized the urgency of improving the real volume and quality of official development assistance, both bilateral and multilateral, and of reviewing its distribution with a view to improving the share for the poorer countries, and reaffirmed their commitment to support steps toward these ends in both the industrial and the surplus oil-producing countries. The Committee welcomed the decisions of some of its members to expand the volume and improve the quality of their assistance, but noted that the existing quantum of aid was still far below the 0.7 percent of GNP target for the middle of the Second Development Decade. In this connection, the Committee noted that negotiations for the IDA 5 replenishment were scheduled to start later this year. In view of the requirement for additional capital by IDA recipients, it was agreed

that a replenishment providing for an expansion in real terms would be most helpful.

The Committee agreed that in order to help achieve acceptable rates of growth for developing countries, there should be an expansion of the lending programs of the World Bank and the regional development banks, consistent with their capital structure and the availability of funds. The Committee urged that the capital base of the development finance institutions be reviewed.

In response to the serious difficulties faced by the developing countries, the Committee, as a first concrete step, decided to lend its unanimous support to the establishment for one year of a new intermediate lending facility in the World Bank (known as the Third Window) to lend on terms intermediate between those of IDA and of the World Bank. It further decided to urge the World Bank to proceed with its establishment in the fiscal year beginning July 1, 1975, in order to lend to the developing countries in that year up to \$1 billion in assistance separate from other Bank operations. Since these funds will be limited, there will be need for eligibility criteria which will favor the developing countries with an annual per capita income of less than \$375, but it was recognized that there was need to have some flexibility in the matter of the upper limit of the criteria. It was pointed out that the Third Window operations could also have some redistributive effect on other Bank Group financing, to both the poorest and the middle- and higher-income developing countries. The Committee noted with satisfaction that eleven countries had offered contributions toward an interest subsidy fund from the industrial and oil-exporting countries. Some other countries indicated their likely support to this cooperative effort, in a multilateral framework, for the assistance of the developing countries in the present difficult situation but suggested some alternative ways of financing.

The Committee considered the report of the Executive Boards of the IBRD and IMF on proposals to create a special trust fund to be administered by the IMF to provide additional highly concessional resources to meet the balance of payments needs of low-income developing countries for the next few years. Some members of the Committee felt there was an urgent need for establishing such a fund as soon as possible. In order to facilitate early concrete action on a trust fund, the Committee agreed to urge the Executive Directors of the IMF to consider all aspects of the establishment of such a trust fund as well as to continue their study of all possible sources of financing.

It was appreciated that the magnitude of the flow of resources required by the developing countries was such that private capital flows must

continue to play a substantial role in helping to meet the overall capital needs for development. The Committee noted the importance of measures to facilitate and expand the access of developing countries to capital markets and recommended expanded technical assistance to developing countries seeking such access. The Committee agreed to establish a working group to make a review of regulatory and other constraints affecting access to capital markets, and also to study further proposals to support developing countries' access to private markets, including the use of multilateral guarantees. The Working Group should present a status report on progress at the next Committee meeting.

The Committee recognized that fluctuations in the prices and earnings of commodities which account for a major portion of the exports of developing countries can present severe problems to these countries both in their balance of payments and in the maintenance of development expenditures and investment levels. The Committee recognized the need for effective measures to reduce such fluctuations, which could make a significant contribution to development efforts. The Committee noted measures recently taken and others under consideration to help moderate fluctuations in commodity prices or export earnings including proposals to negotiate appropriate agreements. Many members urged the Bank, and the regional organizations, to study ways and means of assisting in the financing of commodity stabilization schemes, including buffer stock arrangements. Many members also expressed strong support for the Bank's proposal to consider providing financing to the tin buffer stock. The Committee welcomed the request of the Interim Committee to the Executive Directors of the IMF to consider appropriate modifications in the terms of its compensatory financing facility and its buffer stock facility.

The Committee also noted that appropriate trade liberalization policies could provide very substantial benefits to the developing countries and expressed its earnest hope for maximum progress in trade liberalization during the ongoing multilateral trade negotiations.

The Committee took note of new institutional arrangements established as a result of the World Food Conference as well as of initial steps toward creation of the proposed International Fund for Agricultural Development.

It was agreed that the next meeting of the Committee would be held in Washington, D.C., in the first week of September, during the Annual Meetings of the Boards of Governors of the Bank and the Fund. It was also agreed to meet in January 1976, in Jamaica, in conjunction with the meeting of the Interim Committee.

Fourth Meeting

The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its fourth meeting in Washington on September 3–4, 1975, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. The meeting was held in the Sheraton-Park Hotel during the period of the Annual Meetings of the World Bank and the International Monetary Fund. Mr. Robert S. McNamara, President of the World Bank, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. Henry J. Costanzo, Executive Secretary, took part in the meeting, which was also attended by representatives from twelve international and regional organizations and Switzerland as observers.

The Committee considered and approved for presentation to the Boards of Governors of the Bank and the Fund a report covering the progress of its work during the period October 1974–June 1975. The report, *inter alia*, noted the unanimous support given by the Committee to the establishment of a one-year Third Window in the World Bank for up to \$1 billion of intermediate-term lending; expressed the Committee's hope for early progress in the establishment of a Special Trust Fund, toward which end the Committee had urged a comprehensive consideration by the Executive Directors of the IMF; and recorded the Committee's action in establishing a twelve-member working group on access by developing countries to capital markets, as part of the Committee's approach to the longer-term problem of the capital requirements of developing countries. The report noted the role the Development Committee expected to play in facilitating international actions in the field of development and transfer of resources. In this connection, it referred to the need for substantial increases in real terms in external assistance, improved access to capital markets, trade liberalization and commodity arrangements, the effective functioning of the international monetary system, and appropriate domestic policies in developing countries as areas where such possible future actions were needed.

The Committee was informed by the Managing Director of the IMF of the status of consideration by the IMF's Executive Directors of questions associated with the establishment of a Special Trust Fund. The Committee was also informed of the consensus in the Interim Committee that the IMF sell a portion of its gold for the benefit of developing countries without

resulting in a reduction of other resources for their benefit. The Committee welcomed this understanding and agreed in principle that a Trust Fund should be established using profits derived from IMF gold sales, without neglecting the consideration of other possible sources of financing, for balance of payments assistance primarily to lower-income countries. The Committee also agreed to ask the Executive Directors of the IMF to continue their work on the Trust Fund, in response to the Committee's earlier request, with a view to completing it at an early date, taking into account various suggestions which have been made, including the possible use of gold profits for stabilization of export earnings.

The Committee was also informed by the President of the World Bank of the establishment and of the funding status of the Bank's new Third Window intermediate lending facility. The Committee stressed the important contribution this facility will make toward meeting the capital needs of the developing countries and urged that additional contributions be made in order to provide sufficient funds to support the \$1 billion target of lending operations.

The Committee agreed that the Executive Board of the IBRD should give prompt consideration to a selective increase of the capital of the IBRD, and subsequently consider a general expansion of the capital base of the Bank.

The Committee received a status report from the Working Group on Access to Capital Markets, covering the organization of the group and its initial consideration of measures to support access to capital markets by developing countries, with particular attention to a possible multilateral guarantee facility, and a review of regulatory and other constraints on access to capital markets.

The Committee reviewed its program of work for the period immediately ahead and, in addition to the promotion of the establishment of a Special Trust Fund and work on improved access to capital markets, agreed to give special attention at its meetings during 1976 to:

- An up-dating and enlargement of the analysis of the situation of developing countries prepared by the World Bank for the Committee's meeting last June, as well as a study of policies which developing countries might pursue to increase their growth
- Means of improving the current situation affecting resource transfers, taking account of several suggestions made by members of the Committee, including quantitative aid targets and their implementation
- A survey of the policies, programs, and capital resource situations of the various international and regional lending institutions and initiatives in other international bodies to help avoid duplication of functions and to promote a coordinated approach to the problem of transfer of resources

- The relationship of the current underutilization of productive capacity in the industrial countries to their development assistance efforts.

In considering its future work program, the Committee gave special attention to the question of commodity price fluctuations and to their consequences on the export earnings of developing countries. The Committee agreed to give priority attention to these questions in its program of work for 1976, including especially possible measures for the financing of buffer stocks, for the stabilization of export earnings, and other efforts to assist the developing countries in the area of trade, and to begin its examination of them at its next meeting.

The Committee confirmed its earlier agreement that it would meet next in Kingston, Jamaica, on January 9 and 10, 1976, immediately following the meeting of the Interim Committee of the IMF.

January 9, 1976

Fifth Meeting

The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its fifth meeting in Kingston, Jamaica, on January 9, 1976, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. Mr. Robert S. McNamara, President of the World Bank, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. Henry J. Costanzo, Executive Secretary, took part in the meeting, which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

The Committee reviewed the current situation and prospects of the developing countries and noted with concern that the non-oil developing countries in 1976 are likely to incur extraordinarily large current account deficits for the third successive year. The Committee also noted with grave concern that the minimum 6 percent growth target of the Second Development Decade appears not likely to be met for the non-oil developing countries and that substantial amounts of additional external capital are still required if the shortfall from this target is to be held to modest proportions. The Committee also discussed the means of improving the current situation affecting resource transfers, aid targets and their implementation,

current underutilization of productive capacity in industrial countries in relation to their aid effort, and the status of current commodity issues. It was against this background that the Committee considered various measures to increase the flow of resources to the developing countries.

The Committee noted the decision of the Interim Committee to establish the Trust Fund to provide balance of payments assistance to low-income countries as well as understandings reached regarding increased access to IMF resources. The Committee discussed the use of Trust Fund resources and indicated various considerations to be taken into account by the Executive Directors of the IMF in completing their work on establishment of the Trust Fund. The Committee noted that the Third Window for loans on intermediate terms by the World Bank had become operational and that contributions received and expected would permit Third Window loans of \$600 million, and urged those countries which have not already contributed to help to increase its resources.

The Committee received an interim progress report from its Working Group on Access to Capital Markets, discussed the proposed work program on the review of regulatory and other constraints on access to capital markets by developing countries, and recommended the completion of studies on other appropriate mechanisms which might improve access to capital markets, including the possible use of multilateral guarantees, the strengthening of secondary markets, and the possible creation of an international investment fund.

The Committee noted the progress being made in regard to cofinancing arrangements by international and regional development banks and urged that these arrangements be expanded.

The Committee was presented with an initial survey of programs and capital resource situations of major international and regional lending institutions. The Committee expressed its full support for an adequate increase in capital financing of these institutions. In this context, the Committee requested the World Bank's Executive Directors to place before the Board of Governors at an early date a proposal for an increase in the Bank's capital. The Committee also supported an early increase in the capital of the International Finance Corporation. The Committee noted the particularly urgent need for assistance to low-income countries, and in this connection expressed its strong support of a substantially enlarged fifth replenishment of the International Development Association, which, in the opinion of many members, should be in real terms. The Committee noted that negotiations were under way to secure agreement in time to permit continuity of operations. The Committee urged timely action to replenish the resources of regional banks, including their soft-loan windows.

The Committee gave special attention to the question of commodity price fluctuations and to their consequences on the export earnings of developing countries. The Committee agreed to give priority attention to these questions, including especially possible measures for the financing of buffer stocks, for the stabilization of export earnings, and other efforts to assist the developing countries in the area of trade.

The Committee expressed its unanimous appreciation of the excellent arrangements made for the meeting and the hospitality extended by the Government of Jamaica.

October 3, 1976

Sixth Meeting

The Development Committee (the Joint Ministerial Committee of the Boards of Governors of the Fund and the Bank on the Transfer of Real Resources to Developing Countries) held its sixth meeting in Manila on October 3, 1976, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. Mr. Robert S. McNamara, President of the World Bank, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. M. M. Ahmad, Acting Executive Secretary, took part in the meeting which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

The Committee approved for presentation to the Boards of Governors of the Fund and the World Bank its second annual report covering the period July 1975 to June 1976.

The Committee considered the program of its future work in the light of the situation and prospects of developing countries. The analyses presented to it by the staffs of the IMF and the World Bank showed that the current account deficit of non-oil developing countries had declined somewhat but was still expected to be running at a high annual rate of about \$32 billion to \$33 billion in 1976 and the first half of 1977. These estimates did not suggest that a significant relief from current difficulties would be forthcoming in the early part of 1977. Many developing countries, especially the middle-income countries, borrowed heavily to maintain the flow of imports and to avoid undue interruption of their development programs, and this led to an increase in their external debt and debt service payments. The low-income countries have had little or no growth in per capita

income since 1970 and their level of imports fell by some 20 percent below that of the late 1960s. Official aid to them has been inadequate. To assist the developing countries in their adjustment process and to help them achieve a higher rate of growth, the low-income countries would require additional concessional assistance and the middle-income countries would need increased flows from both official and private sources. To be effective, these in turn would require a greater emphasis upon domestic policies attuned toward the necessary internal adjustment processes and toward employment creation.

The Committee reaffirmed its strong support for the timely and satisfactory completion of the fifth replenishment of IDA so as to permit a substantial increase in IDA resources, which in the opinion of many members should be in real terms, and to maintain continuity of its operations beyond June 1977. The Committee also agreed that it was important that the lending programs of the international lending institutions remain adequate to help meet the capital requirements of the developing countries. They asked the boards of these institutions to review the adequacy of their capital resources for this purpose and, where such capital is inadequate, to review the issues prerequisite to consideration of augmenting such capital.

The Committee, with due regard to the functions of the boards of the IMF, the World Bank, and other international institutions, desired to focus attention on the resource situation of the international development finance institutions, on the volume, terms, and distribution of official flows, and on the role of adjustment in the development process. The Committee agreed to establish a working group which would, initially, consider the study of the International Resources Bank requested of the World Bank. In addition, the group could be assigned other specific matters, including the volume, terms, and distribution of official flows. The working group will present its conclusions and recommendations for the consideration of the Committee.

The Committee received a further interim report from the Working Group on Access to Capital Markets. It was agreed that capital market countries would endeavor, as far as their balance of payments situation permitted, to move progressively toward greater liberalization of capital movements, in particular capital outflows. In the meantime, when regulations governing capital outflows are maintained for unavoidable reasons,

- Governments of capital market countries would afford favorable treatment, as among foreign borrowers, to developing country borrowers with regard to permissions to make an issue or place in the issue calendar

- Those capital market countries which currently maintain quantitative limits on the amount of foreign issues in their markets would endeavor to keep developing country borrowers outside these limits, at least up to specified amounts
- Since the Eurobond market presents potential opportunities for developing countries to raise finance, countries whose currencies are in strong demand, and which maintain restrictions on international issues denominated in their currencies, would endeavor to give favorable treatment, as among foreign borrowers, to developing country borrowers.

The Committee noted a number of recommendations in the report that consideration be given to the removal of legal and administrative barriers so far as is consistent with investors' protection and urged capital market countries to give them earnest consideration.

The Committee recognized the need to reinforce and expand technical assistance activities in the field of access to capital markets, noted the bilateral programs already in the field, recognized the need to coordinate the implementation of present and future available services, and recommended that attention be given by the Board of IFC to the possibility of IFC expanding its activities.

The Committee stressed the importance of cofinancing by international and regional development banks as a means of augmenting private capital flows to some developing countries, noted the progress being made in this regard, and urged that these arrangements be further expanded.

The Committee noted with satisfaction that the working group had considered the subject of multilateral guarantees and the proposal for an international investment trust and asked that it continue its studies on these subjects. The Committee also agreed that the working group should present to the Committee at its next meeting concrete recommendations for improving the various reporting systems on international financial stocks and flows.

The Committee agreed to meet again on October 6 in Manila and also tentatively to meet on April 17, 1977, in Washington, D.C., the time of the next meeting of the Interim Committee.

The Committee expressed its deep appreciation to the Government of the Republic of the Philippines for its warm hospitality and for the excellent facilities provided to the Committee for the conduct of its meetings.

October 6, 1976

Seventh Meeting

At its seventh meeting in Manila on October 6, 1976, the Development Committee selected the Honorable Cesar E. A. Virata, Secretary of Finance of the Philippines, as Chairman and appointed Sir Richard King, K.C.B., M.C., of the United Kingdom, as Executive Secretary. Sir Richard is currently Permanent Secretary of the Ministry of Overseas Development.

April 27, 1977

Summary of the Eighth Meeting by the Chairman, Mr. Cesar E. A. Virata

Our opening discussion this morning was quite wide-ranging, of course, and I shall therefore concentrate my summary of it on the particular questions of the role of the Committee and how we might best carry it out.

I would like to distinguish two kinds of observations made by you in your interventions. The first category dealt with the way we go about our tasks—in effect, our style and procedures. I think there was wide agreement that we must concentrate on a limited number of topics, not range over an excessively wide area. We should pinpoint topics that are appropriate concerns of finance ministers and require the particular sense of priority and financial feasibility that finance ministers bring to bear. This is perhaps tantamount to saying that our topics should be specific and capable of concrete embodiment. Many of you referred to the need to examine particular financial *mechanisms*, as distinguished from abstract concepts or theoretical studies.

Another generally agreed point of procedure was that we would take care not to duplicate the work being done in other international fora. This, however, would not exclude our serving as an important vehicle for mobilizing political will in favor of undertakings being pursued elsewhere. In

fact, it was recognized that we are perhaps uniquely suited for such a role, and we might be a catalyst for international action by virtue of the political guidance we can offer.

I believe the discussion of our mode of operations was entirely consistent with the general outline I presented at the beginning of the discussion, when I said we might consider both quite specific, immediate-action topics and from time to time some topics of a longer-term nature. The latter ones that I have in mind would nevertheless be quite closely related to concrete, although less immediate, action, so that we would run no danger of losing our policy focus.

In this part of our discussion, I also took careful note of the suggestion that in order to achieve better preparation of subjects for our discussions there might be prior meetings of deputies from capitals. This could be a very valuable procedure.

Now the second category of suggestions in your interventions I would characterize as relating to the substance or content of our future work. Some topics were referred to many times and reflected an apparently broad consensus; others were mentioned by perhaps one or two members, but might still be the basis for exploration in the future. In that connection, there was the constructive suggestion that a complete catalogue of the ideas put forward be made available to members by the time of our next meeting, and the Executive Secretary will see to it that this is done. This might be a useful subject for discussion at the meeting of the deputies.

It would be fair to say that the areas of our work under way—within the scope of our two working groups—were endorsed as appropriate for continued efforts. In this connection, frequent mention was made of the task of increasing flows of official development assistance (ODA). Part of the discussion centered on the question of achieving the 0.7 percent target, and another major portion of the flows that are channeled through multilateral development institutions.

Within the latter category, many of you foresaw a need for Committee attention to:

- The forthcoming capital increase of the World Bank, at the stage when the exercise might require a political impetus following the work of the Executive Directors
- The resource position and general process of replenishment of multilateral institutions
- The lending activities of the institutions, including such aspects as program lending and geographical and sectoral distribution.

Regarding private flows, we had, in addition to endorsements of carrying forward the present lines of action on access to capital markets, interesting suggestions for intensified cofinancing efforts and for a major new look at the role of private direct investment in developing countries.

The effective utilization of assistance in recipient countries and the adequate mobilization of domestic resources were topics also brought to our attention, which are important to the full examination of the development process. One member felt that certain misconceptions as to past efforts of developing countries in this regard could be cleared up, and a better basis for support for increased aid could be created thereby.

Some aspects of bilateral assistance programs were also the subject of suggestions, including the harmonization of donor country practices regarding, for example, non-ODA credits, examination of individual donor country programs, and discussion of topics which have been the subject of previous discussions by donor countries in the DAC.

Several members supported, as a broad framework for analysis of development flows, a balance-sheet presentation of the needs and availabilities of development finance. Many members acknowledge that any such analysis would have to be considered against the background of the trade situation confronting the developing countries, since it is their exports which constitute the main source of foreign exchange earnings.

Finally, I think it was recognized by all of us that significant areas of activity could emerge from the North-South discussions about to be concluded in Paris, and that the Committee should stand ready to play a follow-up role. This role might relate, inter alia, to the areas of international indebtedness, ODA flows, or the development of natural resources in developing countries, including particularly energy resources, and possibly the financial implications of commodity stabilization schemes.

With reference to access to capital markets, I understand the sense of the meeting to be that the Development Committee recommends that the World Bank and the regional development banks should use their existing powers and consider requests for guarantees of bond issues from interested developing countries with the expectation that this will enable additional resources to become available to the country concerned. In considering future capital increases of the institutions, room should be kept for them to engage in guarantee operations. The Committee considers it appropriate that such guarantees could be partial guarantees and asks the working group, in consultation with the World Bank and the regional development banks as well as with private markets, to explore this possibility further and to report to the Committee at its next meeting.

With reference to the promotion of bond issues the consensus of the meeting on this matter seems to be broadly as follows: the Development Committee expresses satisfaction for the progress made in the study of the subject of promotion of bond issues in the working group and, accordingly, asks the working group in consultation with IFC to work out detailed arrangements for a sustained and long-term program of promotion in the markets in order to facilitate bond issues and placements of developing countries.

With reference to the conclusion on the information flows, the Development Committee accepts the recommendations contained in the Interim Report, which was submitted to us, of the Working Group on Access to Capital Markets. This of course involved a number of institutions, including consultations of the IMF.

On the International Investment Trust, I understand the consensus to be further consultations are required on the IIT idea with both developed and developing countries but that both groups of countries have a constructive approach to this matter. The Development Committee Secretariat and IFC will hold these consultations with interested governments as to how the matter might be taken further and will report to us in the next meeting.

I would see no difficulty myself in the suggestion by Ambassador Cauas that the working group should be increased from twelve to twenty, and I take it that this can be regarded as agreed. Similarly, with the suggestion by the Netherlands that the working group report periodically to the Development Committee about the implementation of recommendations on removal of restrictions to the access to capital markets, which I think also had general agreement.

The Committee considered the initial report of its Working Group on Development Finance and Policy, covering the volume of official development assistance. There was general agreement on the urgency of achieving a substantial increase in the total volume of official development assistance. The Committee stressed the role of multilateral flows, and several members indicated that the Committee should play a role regarding increases in the capital of the World Bank and regional banks if the issues remain unresolved in the boards.

The Committee also urged that donor countries whose ODA as a proportion to their GNP was below the current average donor performance should recognize the urgent need to inform their legislatures and the general public of the situation, especially the needs of the poorest countries, with a view to mobilizing political support for expanding the volume of their ODA. Several members of the Committee expressed concern at the lack of progress in achieving the UN target of 0.7 percent of GNP and urged that all

donors should consider moving toward that target. The Committee should keep the matter continuously under review. One member questioned the concepts of targets related to GNP, while others thought it was a logical concept and was generally accepted by the international community. Some members referred to the role of other official flows, including direct private investment in supplementing official development assistance.

The Committee approved the future work program of the Working Group on Development Finance and Policy, covering an examination of the proposal to establish an International Resources Bank, an examination of the scope for the improved procedures for timely and adequate replenishment of resources of multilateral institutions, and an examination of the terms, quality, and distribution of ODA and methods to secure improvement in the effectiveness of aid in promoting economic development. The Committee asks the Working Group to present its report on some of these for consideration at its next meeting.

It was also agreed that our next meeting will be on September 25 and possibly in the afternoon of September 28 in Washington, just prior to the annual meetings of the Boards of Governors of the Bank and the Fund.

Before I close, I would like to express my deep appreciation for your cooperation, for your positive attitude toward the Committee and toward the President of the World Bank and the Managing Director of the Fund. We would also like to congratulate Mr. McNamara for his acceptance and election as President of the Bank for an additional term starting April 1978.

September 25, 1977

Summary of the Ninth Meeting by the Chairman, Mr. Cesar E. A. Virata

Before I try to summarize our discussion, it might be useful to consider this meeting against the background of our meeting in April and developments that have since occurred.

We agreed in our April meeting that the work of the Development Committee should concentrate on a limited number of specific topics that had been carefully prepared in advance, with occasionally one more general subject. We also agreed that we should take care not to duplicate the work being done in other international fora.

It is my feeling that our discussions of today have conformed to this pattern. We have identified several topics where our studies have satisfactorily been concluded and where further action along the lines of the recommendations made by the Committee can be left either to individual governments or to the existing international organizations. Most of our recommendations in the field of access to capital markets and other means to promote borrowing in these markets fall in this category. Some topics were identified as having no immediate prospect of realization—and we have therefore rightly decided not to pursue them at this time; examples are the International Investment Trust and the International Resources Bank.

In a positive sense we have identified a number of issues on which action by the international community is vital and urgent and on which our future work should concentrate. I will come back to these points later.

My second general remark refers to the context in which our meeting takes place. I would venture to say that we are meeting at a time of transition. On the one hand, the CIEC has come to an end and has left this Committee, as well as other fora, with a number of subjects for further exploration without it being, as yet, completely clear how this will be done. On the other hand, we have decided to await the outcome of the major study on world development issues that the World Bank intends to undertake in the expectation that with the results of this study in hand it will be possible better to identify those policy issues which this Committee is particularly well placed to take up, for what I called concrete embodiment, through discussion at the political level. Although this implies, perhaps, a little delay, since the first of these reports will not be available to us until this time next year, it is hoped that this report will provide the longer-term framework in the context of which our policy focus can be assured.

A final word of a procedural nature: our meeting has had the benefit of being preceded by a meeting of Deputies; this has in my view been useful in that it has allowed the Committee itself to concentrate on specific proposals, in particular with regard to the work program. It is my feeling that this procedure could be repeated on appropriate occasions. It is in my view most useful if the meeting of Deputies is attended by senior policy advisors to Ministers, who are thus able to represent their Ministers' views and subsequently have direct access to them in briefing them for the meetings of this Committee.

Let me now come to the individual subjects of our deliberations.

Our discussion on the report of the Working Group on Access to Capital Markets resulted in the following points:

- The Committee welcomes the agreement reached with the management of the International Finance Corporation under which IFC will

be prepared, if requested, to test the feasibility of a promotion program of bond issues of selected developing countries in the capital-exporting countries. Interested governments should now approach IFC.

- The Committee also welcomes the understanding reached with the management of the World Bank, under which the World Bank will be prepared to consider requests from member countries for guarantees of their bond issues. It is noted that similar decisions have been taken by the Inter-American Development Bank and the Asian Development Bank, within the limitations imposed by their respective Articles of Agreement and policies.
- Recognizing that, at this stage, there is no general support for setting up an International Investment Trust to stimulate portfolio investment flows from developed to developing countries, the Committee accepted the recommendation that IFC undertake a simulation of operations and results of an international portfolio investment over the next two years and that interested countries explore the possibilities of establishing and/or expanding national investment trusts allowing both national and foreign investors to invest in domestic securities, taking advantage as necessary of technical assistance from IFC.

Finally, many members expressed their satisfaction that the work on access to the bond markets has been completed. We now look forward to the progress reports that the capital-exporting countries will provide through the IMF on the implementation of our recommendations to reduce or eliminate remaining barriers or restrictions to these markets and to progress reports from the international and regional organizations on the subjects we have covered in our discussions. The working group will report to us on these matters as appropriate.

In examining the report of the Working Group on Development Finance and Policy we have touched on subjects which are of long-term importance. The first was the question of improved exploration and exploitation of natural resources including energy resources. While we excluded from our consideration, for the moment, the International Resources Bank proposal, there seemed nevertheless to be a strong feeling that we cannot leave this complex of issues aside for too long. All delegations expressed the hope that the increased activity of the World Bank and the regional banks will be helpful to increase the number of energy—and mineral resource—projects in developing countries. These opinions have, however, to be balanced against other remarks which stressed that increased attention of the Bank to projects in the resources sector should not jeopardize the other sectors that the international financial institutions traditionally finance. Some members pursued this argument further by pointing out that the mineral sector is particularly suited, because of its high risk, to attract private capital; this

would put financing by the IFIs more in perspective. This relation between IFI financing and the private sector activities in the field of resources was approached by members from different angles. Several stressed the possibility of cofinancing, though one other member warned against the danger that the Bank's involvement might give the impression of conferring the seal of respectability on some of the less desirable activities of the multinational corporations.

All these questions seem to me to warrant further attention. Most delegations felt that the creation of a consultative group for energy resource development was not necessary, at any rate for the time being. There will in any case be consultation and exchange of experience between the Bank and other institutions working in this field, the results of which this Committee can consider at an appropriate time. It was also pointed out to us that the Committee may wish to discuss the subject again in September 1978 in the light of the deliberations in the General Assembly dealing with the proposals originating from the UN Center for Natural Resources, Energy and Transport. These discussions may also touch upon the International Minerals Investment Trust, a subject which for the moment seemed to attract limited interest in this Committee, and the UNDP-operated Revolving Fund for Natural Resources Exploration, the strengthening of which was advocated. The representative of the United Nations suggested in this connection that the Executive Secretary should keep in close touch with him. Of course this will be done.

Finally, there was some support for the thought to devote attention not only to minerals but also to renewable energy resources in the context of the desirability for developing countries to establish longer-term energy policies. One delegate suggested in this connection the use of international resources to finance the energy requirements of a developing country pending the completion of new energy-producing facilities in that country.

On volume, terms, and quality of official development assistance (ODA), almost all members spoke. For the multilateral part of long-term ODA financing the continued replenishment and strengthening of the funds of the World Bank and the regional banks and other similar institutions is of utmost priority according to almost all delegates. The President of the World Bank announced that he had just received the commitments necessary for a bridging arrangement into the IDA 5 replenishment. Increase of the capital of the Bank is a progressively recognized priority. The need for additional resources of the regional banks was also stressed: strong pleas were made particularly for the African Development Fund and for the soft window of the IDB.

The main emphasis of the discussion was on the need to increase the flow

of assistance. The grave concern about the gloomy prospects for the poorer countries presented in the documentation to the Committee led to strong pleas from many sides that the developed countries should increase their aid and improve its terms. The need to attain the UN target of 0.7 percent of GNP was repeatedly mentioned. I think we have heard some welcome news during this meeting, particularly about some of the major bilateral aid programs for which proposals for significant increases have been made to the legislatures concerned. However welcome this is, we have also been reminded that there remains a long way to go before it could be said that the international community is fully responding to the development needs and possibilities of developing countries.

Special attention was paid to the plight of the poorest countries, however defined. The question of definition was one of the subjects which several delegations identified as suitable for follow-up in the working group. Several other factors apart from GNP per capita were mentioned by delegates, mainly in the context of the problem whether it would be an acceptable policy to aim at directing a minimum percentage of aid to those poorer countries. There were few defenders for a rigid rule in this connection, and there was even some doubt expressed by some members whether these countries could quickly and fully use large additional amounts of assistance. The general undertone of the discussion, however, was to support the need for special attention to the poorest among the developing countries, particularly in extending the use of grant aid and other assistance with a high grant element. I think this should remain one of our main concerns on which we want to be kept fully informed. On terms for the poorest recipients we have already received some indications this morning to the effect that a growing number of donors is making aid to the least developed countries available in grant form.

Valuable information was provided by the representative of the OPEC Special Fund, who joined us as an observer. We welcome the assurance of improved information of OPEC aid flows including the more detailed and precise information UNCTAD intends to publish in close cooperation with OPEC.

Finally, I should recall that several remarks were made favoring progressive untying of aid and the need for assistance by donors to suppliers from less developed countries competing for orders financed from untied assistance. Local cost financing and program lending were advocated, particularly but not exclusively with regard to multilateral aid. These matters will all need to be considered further by the working group.

The paper on the economic prospects and capital requirements of developing countries is designed to provide a setting for the agenda and to help

identify areas of future work of the Committee. It does not attempt to formulate specific targets but provides approximate orders of magnitude under some assumptions and alternatives in the hope that these will be of value to both developed and developing countries in the formulation of their own policies.

The discussion on this item confirmed that the question of the continued slow per capita growth of low-income countries, projected at 1.7 percent per annum up to 1985, is the main development issue on which the attention of the international community must be focused. In this context, members registered concern at the decline in real terms of ODA in 1976 compared to 1975 and stressed the need for larger flows of concessional assistance to augment domestic resources of this group of countries to make effective and optimal use of both external and domestic resources.

There was recognition among the members that the continuation of the projected growth rate of 4 percent per capita for middle-income countries depends on the continued access of these countries to the markets of the developed world for conventional borrowings and selling their exports. This highlights the need for a satisfactory conclusion of the current trade negotiation and for resisting the temptation to impose greater trade restrictions or restrictions on capital and money markets.

The members expressed concern that basic human needs remain unmet for some 750 million people and that extreme poverty remains the most pressing problem of development. They felt that growth policies must be supplemented by a direct attack on poverty through a reorientation in donor countries' programs and domestic policies of developing countries.

As far as the future work of the Development Committee is concerned, the Committee agreed that the following ongoing and new subjects form the basis of its work program for 1977-78.

Ongoing subjects will include the continuing examination of issues related to official development assistance, including monitoring the progress of the Special Action Program and consideration of the impact of the official debts on the development prospects of low-income countries and their ODA requirements; the monitoring of progress in the removal of restrictions on access to capital and money markets; and an examination of the role of borrowing in development. It was agreed that the subject of indebtedness should not be included as a separate item in the work program at this stage, but that the course of the discussions in UNCTAD should be closely followed.

New subjects for the future work of the Committee are:

- *A study of world development issues*, including both international and domestic aspects, will facilitate a comprehensive and continuing analy-

sis of development issues and help us in the formulation of development strategies for countries at various stages of development.

- *Coordination of roles of the multilateral development institutions.* There is at present no institutional device to coordinate the work of IFIs in terms of their roles and programs and the timing of replenishments, and the members felt that the Development Committee, without trespassing on the responsibilities of the boards of the institutions, could play a useful role in this area. This will be studied further by the Working Group on Development Finance and Policy.
- *Stabilization of export earnings.* The need for effective international action to offset the adverse effects of instability in export earnings was recognized, and the members generally felt there was need for an international study of a comprehensive nature. The majority view was that this should be undertaken by the managements of the Fund and the Bank with the participation of the Executive Secretary and in consultation with other interested international organizations. This study can then come up to the Committee with the views of the IMF/Bank boards, and it would be helpful if the matter could first be discussed by our deputies in order better to prepare the issue for our consideration.
- *Role of private direct foreign investment.* Private overseas investment can, together with other forms of resource transfer, make an important contribution to the development process not only by providing capital but also in the field of transfer of technology. The Committee will look into some aspects of this subject to see whether private foreign investment could play a more dynamic role in the development process.

I think it would be agreed that the question of energy resource development might best be dealt with as part of the study of world development issues, and we would hope that this sector would be dealt with early in that study.

The Committee noted with satisfaction that developed countries participating in the Special Action Program had reported to the Committee on their contributions, enabling us to make our first report to you on the implementation of the program in accordance with the CIEC declaration. In accordance with the remit from the CIEC, I shall continue to keep you informed on the implementation of this program, taking into account the criteria for these contributions (Are they indeed additional? Will they be disbursed quickly? Will they benefit the low-income countries?).

The Interim Committee will be meeting in Mexico on March 21 and possibly 22. It is not yet clear whether there will be sufficient business to

warrant a meeting of the Development Committee at that time. I suggest therefore that if a meeting proves necessary it will take place on Monday, March 20, in Mexico. I will try and let you know finally about this before the end of the year.

September 23, 1978

Summary of the Discussion of the Main Substantive Subjects
at the Tenth Meeting of the Development Committee
by the Chairman, Mr. Cesar E. A. Virata

This is the first meeting of the Development Committee in which we are concentrating on two or three major items, thereby implementing one of the suggestions made in the review report. It is my impression that this has been a good arrangement. I feel the interest of Ministers in this forum can be maintained and strengthened only if our discussions are mainly substantive and concentrated on one or two key subjects of concern to them. In the current meeting the first of these was the World Development Report.

World Development Report

Our discussion on the *World Development Report* has shown how extremely valuable such a document is and particularly how its analytical quality can influence the progress of international thinking on interdependence between the world economic systems and on the intricate problems of development. Naturally a discussion of this kind within the Development Committee and elsewhere is not designed to and cannot aspire to lead directly to formal decisions, but it can nevertheless exercise great influence on the formulation of national and international policies on development issues. I am very glad to observe the consensus expressed on the urgency of formulating constructive policies on a number of major issues and an increased awareness of the need for continuous international collaboration to meet the challenges before us.

There was great appreciation for the initiative taken by the World Bank in presenting this Report, and members welcomed the idea that such an analysis would be presented annually.

There was extensive discussion of the fact that despite the projected rapid growth in middle-income developing countries, and a potential acceleration

of growth in the low-income countries, almost 600 million people would still be living in absolute poverty by the year 2000. Ministers considered this prospect unacceptable. There was a consensus therefore that the trends underlying these projections would have to be carefully analyzed and measures identified which would improve the projected performance. It was recognized that this would involve major changes by the industrialized countries—in such areas as trade, aid, and capital flows—and by the developing countries in such areas as mobilizing savings, accelerating agriculture growth, stimulating exports, and formulating specific programs to alleviate poverty.

Even the growth rates projected would require an increase of about 12 percent per year in the exports of manufactured goods from developing countries, the largest part of which must be absorbed in the markets of the industrialized countries. There was great concern at the growing threat of further measures of trade protection, and there was recognition by both the developed and developing countries of the need strenuously to resist such pressure and maintain a liberal trading system. This is essential to the growth prospects of both developing and industrialized countries and to the ability of the former to service their present and prospective debt. It also is a matter of urgency that trade-limiting measures which are now in existence be reviewed and progressively reduced. The growing volume of trade in manufactured goods between the industrialized and developing countries also requires much greater attention to necessary adjustment measures in the developed countries in a forward-looking rather than a defensive manner. Such actions would be facilitated if they could be undertaken in a common framework and against the background of an expanding world economy. Likewise, it will be important to improve the international surveillance system so that any restrictive measures to meet temporary situations are imposed in accordance with accepted criteria and are removed as soon as possible. We have heard with appreciation of the revealing analysis made by OECD and the decisions by the OECD Ministers in June.

Ministers recognized that a substantial increase in the flow of concessional assistance is essential if the modest growth objectives of particularly the low-income countries are to be met. Present projections, which assume an increase of 5 percent per year in real terms, would be a dramatic reversal of recent trends since official development assistance (ODA) in real terms has been stagnant for over a decade and declining as a percentage of GNP. This reversal would be impossible without strong new initiatives by the major contributors whose aid volume is below the DAC average. We welcome the decision by the Government of Japan to double its aid flows in three years

and the intentions expressed by the United States and Germany to expand their aid programs—part of which will, in the Japanese and German cases, take the form of debt relief, as well as aid in the form of grants or loans on softer terms, thus mitigating present and future debt burdens of the countries most in need of soft aid.

However, it was also noted that even with these changes the share of ODA in the investment of the low-income countries would decline. Great emphasis was therefore placed on moving more rapidly than projected toward the UN target of 0.7 percent and concentrating a greater share of ODA flows on the poorer countries.

For the middle-income countries, continued access to the capital markets is vital. The 5.9 percent annual rate of growth projected in the Report assumes tripling of net disbursements of loans at market terms by 1985 and an increase in outstanding balances from \$84 billion in 1975 to \$350 billion in 1985. Ministers discussed the measures necessary to sustain private flows at these levels, to improve the terms of such flows in order to make them more suitable for development financing and avoid excessive debt burdens, and to further diversify the sources of this finance. Ministers expressed the view that a rapid expansion of the cofinancing operations of the World Bank and the regional banks with private sources of capital would be one of the most effective ways of dealing with these problems.

The international financial institutions play a major role in the provision of capital to the developing countries and are expected to play an even larger role in the future. It was therefore stressed that:

- Decisions should be reached quickly on an increase of the capital of the World Bank and the regional banks
- Agreed contributions to IDA 5 should be made promptly
- Negotiations for IDA 6 should commence as soon as possible with the objective of increasing its resources substantially in real terms.

Ministers recognized that the measures to be taken affecting trade and capital flows would supplement the efforts of the developing countries to accelerate growth and alleviate poverty. Increasing concern in the developing countries with these twin objectives of development, and formulation of plans and policies with both objectives in sight, was welcomed. The domestic and international measures are mutually reinforcing and hold out the prospect for a more rapid and effective alleviation of world poverty.

Stabilization of Export Earnings

With regard to stabilization of export earnings there was a strong desire to see the Fund's compensatory financing facility (CFF) play a more impor-

tant role through further liberalization of its functioning. In that connection, the meeting was broadly supportive of the changes, suggested in the staff report, in the main characteristics of the CFF. The meeting did not address the more technical aspects of the CFF, which are, I think, better dealt with in the Fund Board. While a feeling was expressed that the adequacy of existing compensatory facilities deserved further analysis and consideration, I sense that, on the broad policy questions, the consensus was that: (a) there would be advantage in export services (tourism) being included in the coverage of earnings under the CFF; (b) the IMF Board should examine the different aspects of the proposals concerning a possible liberalization of the CFF; and (c) the conditionality under the CFF drawing beyond 50 percent should remain unchanged.

I understand that the Board of the Fund is due to review the CFF in 1979. I hope that the endorsement of the above-mentioned changes by our Committee will provide a useful input to the Board's discussion.

Medium-term Shortfall

From our discussion, I sense that the Committee recognized the existence of the medium-term shortfall problem and favored the suggested cooperative arrangement between the Fund and the Bank. The problem of "medium-term shortfall" is a complex one which might require further thought and examination. I believe that the joint action of the Fund and the Bank, through the use of the extended facility of the Fund and increased program loans by the World Bank to finance medium-term shortfalls, could appropriately be reviewed periodically by our Committee.

Need for Additional Work

I also understand that the need for additional measures for earnings stabilization, complementary to the CFF, was widely supported. We have before us a proposal put forward by the Federal Republic of Germany for a worldwide stabilization scheme which would be examined in the course of further work on the stabilization question. I also noted that further assessment of the adequacy of existing compensatory facilities should be undertaken. Views were also expressed on the need to keep in mind the negotiations to be resumed this fall on the Common Fund at UNCTAD. Ministers expressed the hope that these could be brought to a speedy and successful conclusion.

The meeting agreed that further work on the stabilization question should be included in the future work program of the Committee, for which draft terms of reference are available for consideration by the senior officials.

September 27, 1978

Eleventh Meeting

At its eleventh meeting on September 27, 1978, in Washington D.C., the Development Committee selected The Honorable Cesar E. A. Virata, Minister of Finance of the Philippines, as Chairman for a further period of two years.

September 30, 1979

Twelfth Meeting

The Development Committee held its twelfth meeting in Belgrade, Yugoslavia, on September 30, 1979, under the chairmanship of Mr. Cesar E. A. Virata, Minister of Finance of the Philippines, and with the participation of Mr. Robert S. McNamara, President of the World Bank, and Mr. J. de Larosière, Managing Director of the International Monetary Fund. Sir Richard King, Executive Secretary, took part in the meeting which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

The Committee considered papers prepared by the World Bank and IMF on the flow of financial resources to developing countries and the stabilization of export earnings. They also took note of the proposals contained in the Outline for a Program of Action approved by the Group of Twenty-four and unanimously endorsed by the Group of Seventy-seven.

The Committee discussed current economic trends and agreed that many developing countries will face a particularly difficult situation over the next few years. The non-oil primary producers are likely to experience a slowdown in the growth of demand for their exports and adverse shifts in their terms of trade. The Committee expressed serious concern that in the context of high rates of inflation this would lead to relatively slow rates of economic growth, a further substantial deterioration in their aggregate current account deficit, and an increase in the number of developing countries encountering debt servicing problems.

Recognizing the increased interdependence of national economies and in particular the impact on developing countries of developments in industri-

alized countries, the Committee emphasized the importance of sound economic and financial policies in all countries; it reiterated the need to avoid protectionist trade measures that would adversely affect the exports of developing countries. The Committee also stressed the urgency of implementing effective policies for energy conservation and development.

The Committee recognized that there was a clear need for broad multilateral efforts, including an increasing role for the Bank and the Fund, to assist member countries in coping with the very difficult situation ahead. In this context the Program of Immediate Action outlined by the Group of Twenty-four and endorsed by the Group of Seventy-seven would be kept in view. The Committee noted with satisfaction a number of recent developments that had enhanced the Fund's capacity to assist its members, including the Resolution of the Fund's Board of Governors on the Seventh General Review of Quotas under which quotas in the Fund could be increased to SDR 58.6 billion; the coming into force of the supplementary financing facility; the adoption of new guidelines on conditionality; and the improvements in the compensatory financing facility (CFF), including the increase from 75 percent to 100 percent of quotas in the maximum amount that could be purchased under that facility. The Committee stressed the importance of an early implementation of the quota increases under the Resolution on the Seventh General Review of Quotas.

The Committee noted with satisfaction that over the past year agreement had been reached in the Executive Board of the World Bank to recommend to its Governors a \$40 billion General Capital Increase (GCI); the Committee urged that all necessary steps be taken to make this increase effective as early as possible. The Committee welcomed the fifth replenishment of the Resources of the Inter-American Development Bank, the decision by the Governors of the African Development Bank for a substantial increase in the capital of that institution, and the decision of OPEC's Ministerial Committee on Financial and Monetary Matters to approve the second replenishment of the resources of the OPEC Special Fund.

In considering the longer-term economic outlook, the Committee noted that low-income developing countries will continue to depend on official development assistance (ODA) for the bulk of their net capital inflows. In view of this, the Committee regretted that only a modest growth in total ODA flows is projected over the next few years. For many middle-income countries, which depend mostly on private sources for capital flows, as well as certain low-income countries, the anticipated increase in total debt and debt service over the medium term were matters for careful attention.

The Committee, while recognizing the difficulties facing some donor countries, stressed the importance of increasing the quantity of ODA flows,

particularly from those countries which are now at relatively low levels in relation to gross national product. The Committee also called for improvements in the quality of ODA, such as quick-disbursing assistance, untying of aid, finance for local costs, and for greater concentration of ODA on the countries most in need. The Committee stressed the urgency of bringing the sixth replenishment of IDA to a prompt conclusion at a level which would enable a significant increase in commitments in real terms to continue.

In discussing longer-term structural adjustment problems, the Committee welcomed the willingness of the Bank to consider increasing substantially the relative importance of program lending in its overall operations. The Committee requested the Executive Directors of the Bank to explore the criteria which could govern program and sector loans in situations where external disequilibria had not yet become severe, and to consider whether in individual cases such lending should be additional to that now planned. The regional institutions were invited to review their policies and practices in light of the current prospects for developing countries. The Committee endorsed expanded collaboration between the Fund and the Bank in support of economic programs of developing countries facing severe balance of payments problems.

The Committee discussed the problem of medium-term financing for balance of payments adjustment. In this connection, the Committee noted that the Fund's extended facility had proved a useful mechanism and that it had considerable potential for the future. Recognizing the difficult situation facing member countries, the Committee requested that the Executive Board of the Fund give further consideration to increasing the maximum repurchase period under the extended facility from eight to ten years.

In view of the heavy needs for balance of payments financing facing many countries in the years ahead, the Committee requested the Executive Board of the Fund to give attention to developing ways and means of lowering the interest costs of the supplementary financing facility.

The Committee recognized that in the difficult years ahead there would be a major need for recycling of funds to assist developing countries facing large balance of payments deficits and recognized that this need could not be met by official financial flows only. In this connection, the Committee stressed the important role of additional private capital flows in financing the increasing capital requirements of developing countries; such flows would be facilitated by the promotion of policies in these countries conducive to sustaining their creditworthiness. The Committee welcomed the expansion in cofinancing with the private banking sector that had been achieved by the World Bank and regional institutions to date, and sug-

gested that capital-exporting countries should explore what actions could be taken to encourage greater use of this mechanism by their banks. The Committee also requested the World Bank and the regional institutions to explore steps that could be taken further to expand cofinancing.

In discussing possible new approaches relating to capital flows, the Committee reaffirmed that priority should be given to exploiting the full capacity of existing institutions, including possible acceleration in the use of their resources, to meet the urgent problems of the developing countries over the next few years. The Committee considered, however, that the matter should be kept actively under review.

The Committee reviewed the question of stabilization of export earnings on the basis of a staff study. The Committee emphasized the importance of appropriate mechanisms to mitigate the effects of fluctuations in export earnings of developing countries, in particular those countries heavily dependent upon primary commodity exports, and to assist them in diversifying their exports. It recognized that, through coordinated action, the Fund and Bank had developed the capacity to meet the needs of countries suffering from shortfalls and noted in particular the progress that the two institutions had made in providing finance for medium-term commodity shortfalls and in reducing dependence on primary commodities. It requested the Executive Boards of the two institutions to keep this matter under review.

The Committee welcomed the recent decision of the Executive Board of the Fund to liberalize the Fund's compensatory financing facility, in particular the increase in the limit on the amount of drawings outstanding under the facility. The changes constitute a substantial improvement in the Fund's compensatory financing facility, making it a more effective mechanism to assist members in dealing with problems of fluctuations of export earnings. The Committee noted that in the longer run vulnerability to fluctuating export earnings would be reduced by diversifying exports, for which purpose Bank and IDA resources should continue to be made available. The Committee also welcomed the new convention replacing the Lomé Convention and the new features of the STABEX incorporated in the new convention. They also noted with satisfaction the progress made in negotiations for the setting up of a Common Fund for commodities.

It was agreed that the subject of export earnings stabilization would be reviewed by the Committee in a year's time in the light of experience in the operation of the recently improved CFE, the ongoing negotiations on the Common Fund, and the further study of the matter being undertaken in UNCTAD in cooperation with Fund staff.

The Committee will meet again on April 24 in Hamburg.

The Committee expressed their sincere appreciation to the Government of Yugoslavia for its hospitality and for the excellent arrangements provided for their meeting.

April 24, 1980

Thirteenth Meeting

The Development Committee held its thirteenth meeting in Hamburg, Federal Republic of Germany, on April 24, 1980, under the chairmanship of Mr. Cesar E. A. Virata, Minister of Finance of the Philippines, and with the participation of Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Ernest Stern, Vice President, Operations, of the World Bank. Sir Richard King, Executive Secretary, took part in the meeting, which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

The Committee considered papers submitted by the World Bank on lending for structural adjustment and on cofinancing, and a progress report by the IMF on recent developments relating to IMF facilities. They also received preliminary reports from the chairmen of the two Task Forces on Nonconcessional Flows and on Private Foreign Investment. On the basis of a staff study by the Bank and the Fund, the Committee reviewed recent developments relating to the proposals of the Group of Twenty-four for a Program of Immediate Action, which the Committee at its meeting in Belgrade had agreed to keep in view. The Committee had a preliminary discussion on the report of the Brandt Commission.

The Committee noted with concern that the general impact of the high level of world inflation, including the increase in energy and other prices, and the weakening of demand for developing-country exports because of the slowdown of economic activity in the industrial countries, are leading to large current account deficits and placing an increasing burden of adjustment on many non-oil developing countries. Recent developments in international financial markets have made it more difficult and expensive for developing countries to secure appropriate long-term financing for their development programs. Their debt service burden could only be expected to grow further, given the large dependence of the middle-income countries on nonconcessional public and private financial flows. The Committee also noted that the present flows of concessional official development assis-

tance (ODA) were inadequate to meet the essential requirements of the poorer developing countries, and unless urgent action is taken their condition will further deteriorate. The Committee therefore emphasized the pressing need for an increase in ODA directed toward achieving the target of 0.7 percent of GNP. It reaffirmed its intention to consider at its next meeting the issue of ODA flows, both present and prospective, on the basis of a staff paper. Against the background of a generally deteriorating international economic environment, the Committee re-emphasized its earlier call for a reduction of protectionist trade measures, which adversely affect the exports of developing countries, and stressed the need to avoid restrictions on access to capital markets.

The Committee welcomed the initiative taken by the Bank to provide assistance through structural adjustment lending on appropriate terms and conditions for developing countries which face difficult medium-term prospects in their balance of payments. Members recognized the contribution that could be made through this type of nonproject and program lending both to the rapid transfer of adequate resources and to the active pursuit of appropriate structural policies in the developing countries. Governments and the Bank were urged to give prompt attention to this subject, and members agreed to review progress in this respect at their September meeting.

The Committee recognized that it was important to expand net private capital flows in the period ahead. It noted that while there had been substantial growth in recent years in cofinancing by the Bank with official aid agencies, export credit institutions, and private lenders, the volume was still insufficient compared with the needs. Noting that the Bank was already exploring several new approaches to attract funds for cofinancing from a wider range of private sources, members urged that efforts be continued to improve the effectiveness and the volume of these financial flows in ways that would meet the objectives of the borrowing countries.

The Committee welcomed the recent decision by the Executive Board of the Fund to increase the maximum repurchase period under the extended facility from eight to ten years and to reduce the number and frequency of repurchase installments; the combined effect of these measures will increase the average life of a drawing outstanding under the extended facility by almost one-fifth. This action will spread the adjustment effort over a longer period and lessen the financial burden of using the extended facility. The Committee recognized that the Fund should continue to follow a flexible approach as regards the volume of drawings under the supplementary financing facility in cases where additional amounts are justified by the magnitude and nature of a member's need for financing. The Committee

expressed the hope that at an early date measures would be taken to reduce the cost of using the supplementary facility and in this way ease access to the facility.

The Committee welcomed the steps being taken by both the Bank and the Fund to adapt and expand their activities to meet the needs of countries affected by the increasingly difficult economic situation. While recognizing that each institution has its own character and function which should remain distinct, they emphasized the importance of close collaboration between the two institutions.

The Committee welcomed the progress that had been made toward providing additional capital resources for the World Bank and the regional development banks, and the agreements reached on the replenishment of IDA under the sixth replenishment. However, Committee members expressed concern that legislative difficulties now threatened a hiatus in the *commitment authority of the multilateral development institutions* and urged that member governments take all necessary actions to ensure continuity in their operations. Action was particularly urgent in regard to IDA 6, since resources available from IDA 5 will be exhausted by June 30. Equally urgent are actions concerning the replenishment of the Inter-American Development Bank and the increase of the concessional funds of the Asian Development Bank. The Committee further noted that additional resources had been pledged to the OPEC fund, and that aid commitments under the LOME II convention had been increased.

The Committee noted that at the time of its next meeting there would be available a final report of the Task Force on Private Foreign Investment and a progress report of the Task Force on Nonconcessional Flows. Members stressed the extreme importance of the review of private financial flows to determine what measures could be taken to facilitate additional flows on appropriate terms and to improve access of a wider range of developing countries to private capital markets.

The Committee welcomed the publication of the Brandt Commission Report and viewed its recommendations as a useful basis for consideration by the international community. The Committee noted that a number of the recommendations related to the Bank, the Fund, and the regional banks and that these institutions are currently examining these recommendations. They requested that specific papers should be prepared on those recommendations of the Commission's report that were of particular relevance to the Committee's work.

The Committee reviewed the current state of discussions relating to the Group of Twenty-four Program of Immediate Action for International Monetary Reform. While recognizing that international agreement had

been reached on some of these proposals and that some others were under discussion, they nevertheless stressed the importance of reaching early agreement on other items of a developmental character, an increase in the volume of official development assistance, completion of the processes for the sixth replenishment of IDA, and a significant increase in the amount of program lending.

The next meeting of the Committee will be held in Washington at the time of the annual meetings of the Governors of the Bank and Fund in September 1980.

The Committee expressed their warm appreciation to the Government of the Federal Republic of Germany for its hospitality and for the excellent arrangements provided for their meeting.

September 29, 1980

Fourteenth Meeting

The Development Committee held its fourteenth meeting in Washington, D.C., on September 29, 1980, under the chairmanship of Mr. Cesar E. A. Virata, Minister of Finance of the Philippines, and with the participation of Mr. R. S. McNamara, President of the World Bank, and Mr. J. de Larosière, *Managing Director of the International Monetary Fund*. Mr. M. M. Ahmad, Interim Executive Secretary, took part in the meeting, which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

The Committee discussed development policy issues and financing requirements in the light of the current and projected international economic situation. It considered medium-term prospects for the world economy and particularly their impact on the oil-importing developing countries. The Committee also reviewed relevant issues with respect to the Group of Twenty-four Program of Immediate Action and the recommendations of the Brandt Commission.

The Committee noted with concern that the medium-term prospects for the world economy are now judged to be more unfavorable than they were a year ago. Because of sustained higher real costs of energy and other factors—the expected slow growth in industrial countries threatening the expansion of world trade, combined with persistent high rates of inflation and possible constraints on capital flows, particularly on concessionary

assistance—oil-importing developing countries as a group are expected to face serious and prolonged payments imbalances. According to the Fund's latest projections, the current account deficits of these countries are expected to rise from \$56 billion in 1979 to \$72 billion in 1980 and around \$80 billion in 1981.

The Committee recognized that successful adjustment by the oil-importing developing countries to the new international environment should contribute to achieving significantly better growth rates in these countries; on this basis, a growth rate in excess of 3 percent could well be attainable in the second half of the decade. The Committee stressed, however, that such an adjustment effort would require strong resource support from industrialized countries and from oil exporters. The Committee encouraged efforts by industrial nations to ensure that, in formulating their own adjustment policies, they take effective measures to conserve energy and do not adopt measures restricting trade or capital flows which might worsen the position of developing countries. The Committee recognized that developing countries would have to take measures to stimulate exports, expand production of new energy sources, economize the use of energy in relation to their industrial growth, and improve the efficient use of capital, human resources, and imports in order to achieve maximum rates of growth in the context of the changed international economic situation. The Committee stressed that it was of the utmost importance to ensure that increased external capital flows be made available to the oil-importing developing countries, and especially to the least developed and other low-income countries, in support of these efforts.

The Committee noted with particular concern that the growth prospects of the low-income countries, especially Sub-Saharan Africa, are bleak. It also viewed with deep concern the particularly difficult situation of the least developed and other low-income countries which face large financing needs to meet investments required in agriculture and infrastructure, including longer-term adjustments in investment programs to higher energy costs and changes in comparative advantage. These countries have limited capacity to generate domestic savings, and large borrowing on nonconcessional terms, even if possible, could further jeopardize their future development because of a too rapid buildup of debt service payments. Increased concessional assistance is therefore required from both capital surplus and industrial countries to avoid declines in already unsatisfactory growth rates in these poor countries.

The Committee felt that it would be consistent with the objectives of the various donors to increase the amount and proportion of bilateral

assistance going to the least developed and other low-income countries. The Committee suggested also that donor countries might examine the budgetary implications of setting aside the equivalent of a modest proportion of future GNP increases to facilitate more rapid progress toward the target of 0.7 percent of GNP for official development assistance (ODA) by countries that have not yet attained this level. The Committee also recognized the importance of mobilizing public opinion in favor of ODA. In considering these and other suggestions in the Bank paper on the volume and quality of concessionary assistance, the Committee requested that a continuing study be undertaken.

The Committee welcomed the active consideration that is being given by both the Bank and the Fund to specific recommendations of both the Group of Twenty-four Program of Immediate Action and the Brandt Commission with respect to measures to enhance the flow of resources to developing countries. It stressed that the Brandt Commission proposals on reduction of poverty receive special attention. The Committee also endorsed the action of the Interim Committee as reflected in their communique.

The Committee, noting the urgent need to expand investment in energy development in oil-importing developing countries, welcomed the Bank's initiative to examine the possibility of establishing an energy affiliate or facility to promote expansion of its lending operations in the energy sector. It urged the continuing process of consultations be brought speedily to a successful conclusion.

The Committee welcomed the progress which has been made by the Fund in adapting the compensatory financing facility to meet more adequately the needs of countries with export shortfalls and decided to pursue the matter of the export earnings stabilization programs based on the comprehensive study being prepared by UNCTAD.

The Committee emphasized the importance of early action by governments to make the agreed sixth replenishment of IDA effective. In addition, contributors to IDA were urged to participate in the bridging arrangements to provide IDA interim commitment authority pending the effectiveness of IDA 6.

The Committee noted the change in the representation of China and the concomitant increase in demand for the Bank's financial assistance to support China's development efforts. In addition, the Bank faces new requirements for structural adjustment and energy lending. The Committee also observed that previous planning assumptions had been based on lower rates of world inflation than those now prevailing and anticipated for the near future. In view of these factors, the Committee urged the Board of the

Bank to explore promptly appropriate ways of expanding the lending capacity of the institution and also to consider ways in which lending in the next fiscal years could be expanded above presently planned levels.

The Committee welcomed the extensive work that had been undertaken by the Task Forces on Nonconcessional Flows and on Private Foreign Investment; the reports of the Task Forces provided a useful basis for further consideration of specific proposals to strengthen the functioning of international capital markets and the flow of resources to developing countries. It welcomed the Fund's active response to the current recycling problems and viewed the Fund's role as complementary to the role of international capital markets.

The Committee reaffirmed the importance of proper supervision in maintaining confidence in the international banking system, thereby enabling it to continue as an important channel of funds over the longer term. The Committee endorsed the conclusion of the Task Force on Nonconcessional Flows that such supervisory activity should avoid abrupt and severe changes which could unduly restrict bank lending to developing countries, and that debt servicing capacity of the borrower should be adequately taken into account in assessing bank portfolio concentration. The Committee also supported the request of the Task Force on Nonconcessional Flows to the World Bank for a full study of the various proposals under its consideration.

The Committee noted that further analysis of private foreign investment might lead to a better understanding of important factors in both investor and host countries that determine the volume and nature of such investments. It suggested that the Board of the Bank consider the recommendation of the Task Force on Private Foreign Investment for a study of incentives and performance requirements.

The Committee took note of the efforts at the United Nations Special Session to organize global negotiations on the North-South issues and expressed its desire to play a very active role in regard to matters pertaining to the IMF and the World Bank within the framework of the UN global negotiations once these negotiations have started.

The members placed on record their special appreciation for the Chairman's long and distinguished service to the Committee.

The next meeting of the Committee will be held in Libreville, Gabon, on May 22.

October 2, 1980

Fifteenth Meeting

At its fifteenth meeting in Washington, D.C., on October 2, 1980, the Development Committee selected The Honorable David Ibarra Muñoz, Secretary of Finance and Public Credit of Mexico, as Chairman and appointed Ambassador Hans Erik Kastoft, Permanent Representative of Denmark to the United Nations Office in Geneva, as Executive Secretary.

May 22, 1981

Sixteenth Meeting

The Development Committee held its sixteenth meeting in Libreville, Gabon, on May 22, 1981, under the chairmanship of H. E. David Ibarra Muñoz, Secretary of Finance and Public Credit of Mexico, and with the participation of Mr. R. S. McNamara, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary. Observers from a number of international and regional organizations and Switzerland also attended the meeting.

The Committee noted with concern that the developing countries continue to face serious problems and that their medium-term prospects remain poor. A number of factors are of importance in this respect. These include:

- Persistent international inflation
- Slowdown in the expansion of world trade, growing protectionist tendencies, and a depressing outlook for exports of developing countries
- Sharp increases in the current account deficits of non-oil developing countries from \$58 billion in 1979 to an estimated \$80 billion in 1980 and a projected \$97 billion in 1981
- Continuing slow growth of most industrial countries; the growth of real GDP in these countries had averaged 4 percent in the 1976-79 period; it slowed down to only 1.5 percent in 1980 and is expected to fall to less than 1 percent in 1981.

The financing of these large deficits has required a substantial rise in external borrowing at higher cost and, consequently, the debt service burden for developing countries has increased perceptibly in recent years. There is little or no expectation that the large imbalances will be corrected quickly, and therefore problems relating to external financing and debt are likely to persist. The plight of the low-income countries is particularly acute because these countries have limited recourse to international capital markets and depend heavily on official development assistance. The volume of this type of concessional assistance may not at present be expected to increase at a rate similar to the expansion in requirements. Concerted efforts are necessary to deal with this difficult situation.

In view of these circumstances, the Committee concentrated its attention on a few selected topics addressing the expanded capital needs of developing countries and the role of the international financial institutions in meeting them.

The Committee recognized that in view of the magnitude of the financing needs of the developing countries, including those of China, it was of particular importance and urgency to provide the multilateral development institutions such as the World Bank and the regional banks with additional resources to assist developing countries in their development efforts, to help them restore acceptable levels of growth, and to support their structural adjustment. The Committee therefore urged the Executive Board of the World Bank to continue its efforts to reach a consensus on the scale of World Bank activity appropriate to the circumstances of the early 1980s and to seek means of future financing of that activity, including study of a possible change in the gearing ratio.

Of special concern to the Committee was the delay by some countries in bringing into effect the sixth replenishment of the International Development Association (IDA), with the result that IDA ran out of new commitment authority in April this year. Any extended disruption in IDA operations will have serious repercussions on the poorest developing countries. In view of the gravity of the circumstances, the Committee stressed the need for member governments to restore IDA's commitment authority as a matter of great urgency. The Committee noted with appreciation those donors which agreed to make available advance payments to IDA 6.

The Committee noted with satisfaction the reaffirmation of support for a general capital increase by all major donors. It also urged the Executive Directors to consider sympathetically the maximum lending program which can be sustained for fiscal 1982, taking into account the needs of the situation.

The Committee acknowledged that the world energy situation poses a

serious problem of adjustment for producers and consumers. In particular, the oil-importing developing countries face an acute and growing external financing problem and need to reduce their dependence on imported oil. This will involve expanded exploration for and development of domestic oil and gas resources, increased development of coal, major expansion of renewable resources, maximum utilization of hydro-power capacity, and conservation.

The Committee expressed its support for the Bank's initiative to expand its lending operations in the energy sector. They urged that in the light of the pressing need to reduce the strains on the balance of payments of the oil-importing developing countries, the ongoing consultation process be completed expeditiously. They urged that members examine ways to mobilize additional funds for energy development, both through existing mechanisms and through a possible new affiliate or facility. The Committee stressed the importance that these measures should reflect the global nature of the problem and the international community's interest in a general approach to energy, which encompasses conservation and the development of conventional and nonconventional sources of energy.

The Committee considered the status reports on the future lending of both concessional and ordinary capital resources of the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank currently under review within these institutions. Given the pressing need to strengthen the lending operations of the regional development banks, the Committee urged member governments to seek means of financing their activities arising from the changed circumstances of the 1980s.

In the context of the review of the flow of nonconcessional resources, the Committee considered the Report on Selected Issues by the Task Force on Nonconcessional Flows both timely and useful. In its report the Task Force limited its comments to the following issues: cooperation between multilateral development institutions and commercial lenders; external indebtedness of developing countries; and increases in lending capacity of the multilateral development institutions.

On the basis of the Task Force report, the Committee considered that a degree of additionality in nonconcessional flows could be achieved by actions on the part of multilateral development institutions to help broaden the range of financial instruments and improve the attractiveness of lending to developing countries. In this regard, the Committee endorsed the Task Force recommendation to invite the multilateral development institutions to discuss, as speedily as possible, these proposals with banks and other financial institutions in major financial centers. These discussions would

include the improvement of cofinancing arrangements between multilateral development institutions and commercial lenders; the sale of portfolio and loan participations by multilateral development institutions; the use of guarantees by multilateral development institutions; and the issue and placement of pass-through loan certificates by multilateral development institutions.

The Committee also noted and endorsed the Task Force report on the external indebtedness of developing countries, which emphasizes that developments regarding external debt must be viewed in the broader context of the world economic situation. It notes that debt problems are due to many factors and believes that both short- and long-term aspects of the debt question must be kept under constant review. The Committee stressed the importance of sound debt management in order to avoid debt servicing problems and thus to help sustain large inflows of capital necessary for the economic development of developing countries. The Committee noted that debt indicators, taken on their own, are not a substitute for comprehensive reviews of the economic situation and prospects of the countries involved.

The Committee expressed concern over the impact of inflation and high interest rates on external debt and encouraged further study of this subject. The Committee recognized the importance of the existing international framework for the rescheduling of official debt, which must be viewed as part of a comprehensive effort to assist the requesting debtor country to implement necessary adjustment policies and to restore flows. The IMF, the World Bank, and the regional development banks might be able to provide good offices in facilitating private debt rescheduling when requested.

Regarding ways of increasing the flow of funds to developing countries from the multilateral development institutions, the Committee urged the Task Force to examine various proposals under consideration and supported the request of the Task Force, directed to the World Bank, for the elaboration of a paper examining these proposals.

The Committee expressed its appreciation to those members of the private international financial community who have actively participated and supported the work of the Task Force on Nonconcessional Flows.

The Committee discussed the critically important issue of concessional assistance and decided, in principle, to establish a Task Force to carry forward and widen the continuing study of the problems affecting the volume and quality and effective use of concessional flows, both in the shorter and in the longer term. The Committee urged that consultations with respect to composition and terms of reference be initiated so as to enable the Task Force to undertake its work at the earliest opportunity.

The deteriorating prospects for growth in Sub-Saharan Africa have been

a matter of serious concern to the international community. The Committee was pleased to learn from the President of the World Bank that the formulation of an action program was well under way and looked forward to discussing the program of action at its September 1981 meeting.

The Members reiterated their interest in a relationship between the Committee and United Nations global negotiations on the North-South issues. The Committee reaffirmed its desire to play a very active role in regard to matters pertaining to its competence.

The Committee decided that its future work program should evolve around matters now before it and on work which is in progress in the Bank, the Fund, and Task Forces. In particular, the work includes a regular review of the flow of resources to the developing countries, and of the financial needs of these countries, in the light of the specific recommendations of the Group of Twenty-four Program of Immediate Action and the Brandt Commission with respect to measures to enhance the flow of resources to developing countries. The Committee endorsed the recommendation included in the Interim Committee press communiqué regarding the SDR link.

The Committee paid a special tribute to Mr. Robert S. McNamara in recognition of his long and distinguished tenure as President of the World Bank. It expressed its deep appreciation for his devoted and outstanding services to the cause of economic development, especially for his deep and abiding concern for the poorest of the world community, and wished him the very best in his future endeavors.

The Committee expressed its special appreciation to the Government of Gabon for its warm hospitality and for the excellent arrangements provided for the meeting.

The Committee agreed to hold its next meeting in Washington, D.C., on September 27 in the afternoon and September 28, 1981, and was pleased to accept the invitation of the Government of Finland to hold its spring 1982 meeting in Helsinki.

September 28, 1981

Seventeenth Meeting

The Development Committee held its seventeenth meeting in Washington, D.C., on September 27–28, 1981, under the chairmanship of H. E. Manuel Ulloa Elías, Prime Minister and Minister of Economy, Finance and

Commerce of Peru, and with the participation of Mr. J. de Larosière, Managing Director of the International Monetary Fund, Mr. A. W. Clausen, President of the World Bank, and Mr. Hans E. Kastoft, Executive Secretary. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

The Committee reviewed the world development situation and prospects on the basis of the *World Development Report 1981*.

The Committee expressed its deep concern that most developing countries, especially the low-income countries, continue to face grave economic problems with poor medium-term prospects.

The Committee noted the disappointingly low levels of economic growth in many industrial countries, which, together with high energy costs, inflation, and high interest rates, have had a profound effect on the performance of the developing countries. They have had to contend with a difficult external economic environment. The experience of several developing countries reviewed in the *World Development Report* shows that even when external conditions are favorable, development is still difficult. The Committee therefore found that efforts by industrial nations to curb inflation, reduce unemployment, and restore their growth rates while at the same time intensifying the pursuit of liberal trade regimes should be encouraged. The Committee reiterated that in a world of interdependence there are important interconnections between the policies of individual countries and therefore a need to take into account the effects on other countries.

The Committee stressed the importance of efforts by all countries to pursue appropriate adjustment policies and encourage developed countries, capital surplus oil-exporting countries, as well as advanced developing countries to support adjustment and development through technical and financial efforts. The Committee reiterated the need for measures to increase the flow of official development assistance to the oil-importing developing countries, especially the low-income countries, and noted the Ottawa Communiqué which acknowledged the decisive importance of the developing countries' own efforts and recorded the commitment of participating industrial countries to maintain substantial and, in many cases, growing levels of official development assistance and to seek to increase public understanding of its importance.

The Committee noted the importance of maintaining adequate flows of commercial and other financing to developing countries.

The Development Committee, recalling its support at the Gabon meeting for providing additional resources to the World Bank and for the restoration of the commitment authority of IDA, welcomed the recent

agreement on interim procedures for the valuation of IBRD capital. This has cleared the way for payment of subscriptions to the \$40 billion General Capital Increase. The Committee urged all countries to make subscriptions in accordance with the resolution on the General Capital Increase as early as possible. It furthermore reiterated the need for the IBRD and IDA to consider the maximum lending program which can be sustained for fiscal 1982, taking into account the needs of the situation.

The Committee also noted the coming into force of IDA 6 with the United States' formal notification of its intention to participate with its full share of \$3.24 billion. As IDA is an essential source of concessional assistance to the poorer developing countries, the Committee urged all contributors to resolve outstanding issues so that planned commitment levels can be maintained. The Committee further requested the World Bank to initiate preparatory discussions for the next IDA replenishment as soon as possible.

The Development Committee also reviewed the needs of the regional development banks in the changed circumstances of the 1980s and their plans for replenishment of the ordinary and concessional funds in this regard. It urged member governments to speedily seek means of financing the future capital requirements at an appropriate level as well as completing commitments previously entered into. The Committee also suggested that the regional development banks dedicate more efforts to supporting regional integration.

The Committee's discussion of energy reflected the global nature of the problem and the international community's interest in a general approach to the subject, encompassing conservation and the development of both conventional and nonconventional sources of energy. It reiterated the importance of energy investments in the developing countries and urged the World Bank and the regional development banks to continue to explore the best means to mobilize necessary public and private resources in order to expand their lending operations in this important sector. In this connection, the Committee welcomed the conclusions of the Nairobi Conference on Energy that there is a substantial and increasing demand for financing support and preinvestment activities for the development of new and renewable energy resources in the developing countries. It also welcomed the recommendation urging all interested parties to accelerate consideration of possible avenues to increase energy financing, including those mechanisms being examined in the World Bank such as an energy affiliate, increased cofinancing, guarantees, and other means.

The Africa study prepared by the World Bank at the request of the African Governors was the subject of great interest in the Development Committee. It noted with deep concern that in the preceding two decades

output per person rose more slowly in Sub-Saharan Africa than in any other part of the world and that growth prospects for the 1980s were dismal. Except under optimistic assumptions, per capita incomes are projected to decline for this part of the continent, which already accounts for two-thirds of the least developed countries. The potential for growth, however, exists and can be realized through increased flows of resources to the region, through a substantial improvement in their world trading opportunities, and through appropriate adjustments in domestic economic policies and in the efficiency with which resources are used. This will require increased attention and resources from the international community in forms suited to African development needs.

The Committee expressed its appreciation for the report and noted that it forms a good basis for a dialogue between the African governments, the international donor community, and the multilateral financial institutions. It urged the World Bank to take the lead in carrying forward this dialogue with a view to promoting joint action by African governments, donors, and international agencies to accelerate growth and development through effective financial and technical assistance support, appropriate policy changes, and expanded investment programs. Further, it requested that the World Bank expand its operations, technical advisory services, and other support for member countries in Sub-Saharan Africa, bearing in mind the needs of other low-income countries.

The Committee, in its review of the follow-up action on outstanding development issues, reiterated its support for active consideration by both the Bank and the Fund of specific recommendations of both the Group of Twenty-four Program of Immediate Action and the Brandt Commission with respect to measures to enhance the flow of resources to developing countries. It noted that both the Fund and the Bank had considered, and in some cases implemented, the recommendations of the Group of Twenty-four Program of Immediate Action and the Brandt Commission. The Committee encouraged the Fund and the Bank to continue to pay due regard to these recommendations, including the suggestions made during the Gabon meeting, such as the SDR link and other issues in the future development of their policies.

The Committee took note of the work of the Task Force on Nonconcessional Flows which, with the support of the World Bank and the IMF, has continued analyzing such proposals as more cofinancing and other forms of cooperation with private financial institutions to increase the lending capacity of the multilateral development institutions, particularly the World Bank; the guidelines for a multilateral partial guarantee mechanism; and recent developments and near-term prospects in international capital mar-

kets. The Committee is looking forward to the Task Force's final report, which it expects to consider at its Helsinki meeting in the spring of 1982.

The Committee urged that, in pursuance of its decision at its Gabon meeting, consultations with respect to the composition and terms of reference of a task force on the important subject of concessional assistance be completed so as to enable the task force to start its work as soon as possible, and before the Helsinki meeting in the spring of 1982.

The Committee noted with satisfaction that the Ottawa Summit communiqué indicates the readiness of the countries concerned to participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress. It reiterated its desire that the Committee should play a very active role in regard to matters pertaining to its competence within that process.

The Committee noted the forthcoming Cancun Summit Meeting and expressed its hope that it may lead to constructive and positive results.

The Committee, after taking into account the views and recommendations of the Executive Boards of the Fund and the Bank, approved the report on the review of the performance of the Development Committee and its annual report. It authorized the Chairman to forward both these documents to the Boards of Governors.

The Committee noted that, in pursuance of its earlier decision on the report of the Task Force on Private Foreign Investment, the World Bank has now completed its plan to study the quantitative and qualitative impact of both foreign investment incentives and performance requirements on direct investment and trade patterns. In view of the potential and the role which private foreign direct investment can play in promoting development in developing countries, the Committee encouraged the World Bank to complete the study for its consideration in due course.

The Committee agreed to hold its next meeting in Helsinki on May 13–14, 1982, in response to an invitation extended by the Government of Finland.

May 14, 1982

Eighteenth Meeting

The Development Committee held its eighteenth meeting in Helsinki on May 13–14, 1982, under the chairmanship of H. E. Manuel Ulloa Elías, Prime Minister and Minister of Economy, Finance and Commerce of Peru,

who, at the start of the meeting, was unanimously selected as the new Chairman in place of H. E. David Ibarra Muñoz, who had earlier resigned from this position. Mr. J. de Larosière, Managing Director of the International Monetary Fund, Mr. A. W. Clausen, President of the World Bank, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

The Committee deliberated at length on a few selected topics in its search for solutions to the many problems which currently plague the economies of both the developed and the developing countries. The Committee noted with concern that the medium-term prospects for the world economy and particularly their impact on the developing countries continue to be unfavorable. The situation and prospects for the poorest developing countries are particularly bleak as they face stagnation, in some cases retrogression, in the period ahead. This situation calls for greater adjustment efforts to the new international environment on the part of both groups of countries in order to facilitate the resumption of sustainable growth. The Committee stressed the need for increased external capital flows on appropriate terms to the developing countries, especially to the least developed. There is also need for a reappraisal and strengthening of the role of the multilateral development institutions in order to enable them to maximize their contribution to the solution of the problems of the present crisis.

It was in this context that the Committee first addressed itself to a thorough review of the current status of lending operations of the multilateral development institutions and the difficulties which they face in replenishment of their concessional and ordinary resources.

The Committee noted the crucial importance of concessional resources, particularly those of IDA, in the development strategy and programs of the low-income developing countries. The Committee urged that the proportion of aid flows to the poorest developing countries be increased. The Committee was concerned that the likely reduction, in the absence of further action, in IDA commitment authority during the sixth replenishment period would have a serious impact on the economies of IDA recipients. It would disrupt the momentum behind development efforts and programs so assiduously built up through sustained efforts over several years.

The Committee felt that it was important and necessary to resolve the crisis now faced by IDA and to take steps to address the problems in fiscal years 1982 and 1983 and beyond. In this connection, the Committee welcomed the action taken by some donors to release the full amount of the

second tranche of their contribution to IDA 6. It noted the importance attached by a number of donors to finding ways of reducing current and prospective shortfalls of IDA's commitment authority in fiscal 1982-84. Several ways have been proposed, including waiving or relaxing the pro rata provisions of the IDA Resolution, as well as the creation of a special fund which would provide additional resources. Progress made in considering these alternatives in informal meetings held by donor representatives over the past week was welcomed in order to develop specific action programs which could be quickly translated into operational mechanisms so that original planned commitment levels could be maintained to the maximum extent possible. The Committee also agreed that discussions should proceed apace so that the seventh replenishment of IDA could begin if possible as scheduled in fiscal 1984. The Committee urged that additional concessional cofinancing be made available for IDA projects.

The Committee, bearing in mind considerations of budgetary constraints, urged governments to accelerate their subscriptions to the General Capital Increase and to release the local currency portion of these subscriptions as rapidly as possible. The Committee also took note of the ongoing discussions concerning the Bank's borrowing practices and its lending rate policy and urged the Executive Directors of the Bank to reach prompt decisions on these matters in order to enhance the Bank's funding flexibility as a means of keeping the cost of Bank borrowing as low as possible and of assuring that planned growth in lending can be financed on reasonable terms. It requested the Executive Directors to continue their study of the scope for an expansion, in real terms, of World Bank lending.

The Committee reaffirmed the importance of energy investment in the developing countries, particularly the poorest among them, and noted with satisfaction that the Bank's lending program for energy has expanded rapidly and now accounts for 25 percent of total Bank lending as against only 15 percent in 1977. However, it has reached a point where any further increase would cut into other priority sectors, which the Committee felt was not desirable. In the circumstances, the Committee asked the Executive Directors of the World Bank to explore ways that would permit the Bank to prepare and secure financing for an increased program of energy investments including an energy affiliate or a special fund or agreed cofinancing arrangements. A progress report should be submitted to the Committee at its September 1982 meeting.

The Committee, on the basis of the material provided by the regional banks, took note of their resource needs and urged member governments to speedily seek means of financing the future capital requirements of the regional banks' ordinary and concessional funds at an appropriate level as

well as completing commitments previously entered into. The Committee also expressed its full support of the regional banks in their efforts to serve as catalysts and seek expansion in their cofinancing programs.

The Committee expressed its appreciation to the Task Force on Nonconcessional Flows of its useful report and noted its general conclusions and recommendations. It asked the Executive Directors of the Bank and the regional banks to consider the recommendations of the Task Force, taking into account their legal and procedural implications, and to report their deliberations to the Committee in due course. The Committee also considered it desirable that appropriate arrangements be made periodically to review further developments in the field of nonconcessional flows. The Committee decided to make the report of the Task Force on Nonconcessional Flows public.

In the area of cofinancing, the Committee noted with satisfaction the sizable expansion achieved by the World Bank. It endorsed the efforts of the IBRD and IDA, where appropriate, to secure an increase in cofinancing from all sources on terms suitable for and acceptable to the borrowers. It asked the Executive Directors of the Bank to consider the various proposals on cofinancing which they will be discussing and to report on them if possible at the September 1982 meeting of the Committee.

As a follow-up of its earlier discussion at Gabon in May 1981 and in Washington in September 1981 on the Sub-Saharan African action program, the Committee reviewed the Bank's further discussions with the EEC, OPEC aid agencies, bilateral donors, the African Development Bank, and the African Governors' Group. The main focus of these discussions was on the policy and financial issues facing the Sub-Saharan countries. The Committee urged the World Bank to move expeditiously to assist the Sub-Saharan countries to formulate specific programs of action and, taking account of the Dakar Memorandum of March 3, 1982, presented at its meeting, to continue its dialogue with donor countries in order to enhance the flow of aid in real terms necessary to support such programs of action.

The Committee recalled its consideration on previous occasions of the Group of Twenty-four Program of Immediate Action and the Brandt Commission recommendations. Both the Fund and the Bank had considered, and in some cases implemented, some of the recommendations applicable to them. The Committee asked the two institutions to present to the September 1982 meeting of the Committee reviews of the status of implementation on the recommendations which are of particular relevance to the Committee's work.

In Gabon the Committee decided in principle to establish a task force to carry forward and widen the continuing study of the problems affecting the

volume, the quality, and the effective use of concessional flows in the shorter and longer term. In pursuance of the Committee's earlier decision and directive, the Executive Secretary of the Committee, on the request of its Chairman, had undertaken extensive discussions for the establishment of a Task Force on Concessional Flows. The Committee welcomed the successful outcome of the consultations on the terms of reference of the Task Force, its composition, and its chairmanship. The Committee's approval of it will now enable the eighteen-member Task Force representing industrial donor countries, OPEC, and developing countries to undertake its task in the period ahead under the chairmanship of John P. Lewis, Professor at Princeton University.

The members placed on record their special appreciation for Mr. David Ibarra Muñoz's distinguished service to the Committee.

The Committee expressed its great appreciation to the Government of Finland for its warm hospitality and for the excellent arrangements provided for the meeting.

The Committee agreed to hold its next meeting in Toronto, Canada, on September 5, at the time of the annual meetings of the Fund and the Bank.

September 5, 1982

Nineteenth Meeting

The Development Committee held its nineteenth meeting in Toronto, Canada, on September 5, 1982, under the chairmanship of H. E. Manuel Ulloa Elías, Prime Minister and Minister of Economy, Finance and Commerce of Peru. Mr. J. de Larosière, Managing Director of the International Monetary Fund, Mr. A. W. Clausen, President of the World Bank, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

The Committee was provided with a review of the world development situation and prospects by the *World Development Report 1982*, which constituted an important background document for its deliberations.

The Committee expressed its deep concern that the state of the world economy remained critical and that the development prospects for the international community had worsened over the past year. In the present

unfavorable economic outlook, the developing countries are facing the serious challenge of reduced aid, continued weakness in commodity prices, deteriorating terms of trade, increasing protectionist tendencies, and concern over prospects for commercial borrowings in the context of the high interest rates and uncertainties in international financial markets. At the same time, the Committee took note of the recent welcome trend toward lower interest rates. The growth rates of non-oil developing countries in 1981 and 1982 are the lowest in several decades and will be only about half the average growth rate of the 1970s, signifying an exceptional situation of decline in real per capita income for many developing countries. This disturbing situation calls for intensified adjustment efforts on the part of both developed and developing countries in order to restore the health and vigor of the world economy. For the industrial countries, priorities would be the restoration of their own economic health and sustained growth, maintenance of a liberal environment for trade and capital flows, and continuing and, it is hoped, increasing the flow of aid to the poorest developing countries. For the developing countries the priorities would include increasing levels of domestic savings and investments, greater efficiency in the use of capital, strengthening of general economic management, greater emphasis on agriculture, and special attention to the poverty alleviation programs.

It was against this background that the Committee addressed itself primarily to the issue of transfer of real resources to the developing countries.

The Committee noted IDA's solid achievements since its establishment in 1960. IDA has become a very important and effective multilateral instrument for promoting development in low-income countries, as is evident from the Bank-IDA staff study, *IDA in Retrospect*. The Committee noted that while substantial progress has been made, the poorest countries remain in desperate need of further assistance and IDA continues to merit the full support of both traditional and new donors.

The Committee noted with satisfaction that in an effort to address the resource crisis presently faced by IDA, donors had acted to avoid the possibility of a precipitate decline in the annual volume of IDA's lending activity in fiscal 1983 and 1984. It welcomed the response of most donor countries to the call for release of the remainder of their IDA 6 contributions in full in 1983. In this regard, the Committee noted with satisfaction that since its last meeting in Helsinki in May this year, the seven major donors at their Summit Meeting in Versailles stressed the need for special temporary arrangements to overcome funding problems of IDA 6 and an early start to IDA 7. It welcomed the recent hopeful developments which indicated that

twenty-two donor countries had agreed to release the remainder of their IDA 6 contributions in full. It urged the few remaining donors who had not yet done so to join others in taking similar action. In addition to meeting their IDA 6 obligations on the original three-year schedule without insisting on pro rata contributions by all donors, most of them are prepared in principle to provide additional resources, amounting to up to one-third of their original IDA 6 contribution, for fiscal 1984, either through a parallel fund or through an account of IDA to be established for 1984. The Committee noted the importance these donors placed on providing IDA with additional commitment authority in fiscal 1984. In view of the special action taken by other donors to maintain IDA's annual resource flows at levels not lower than what is required by the IDA program, it was hoped that the U.S. Congress would act to appropriate the third U.S. installment at the level requested by the Administration and ensure that its contribution under IDA 6 could be completed within four years.

The Committee welcomed the donors' agreement to commence formal discussions on IDA 7 before the end of calendar year 1982 and encouraged donor governments if possible to complete negotiations before the annual meetings of the Bank and the Fund in 1983 so that legislative approvals can be obtained in time for IDA 7 to become effective promptly. While recognizing the budgetary constraints of the industrialized countries, the Committee strongly hoped that it would be possible to agree on a level of replenishment appropriate to the difficult situation facing the poorest countries and their expanding needs for concessional assistance.

In the area of nonconcessional flows to the developing countries, the Committee noted with satisfaction that cofinancing operations of the Bank from various sources have expanded considerably in recent years. In 1982 its cofinancing operations amounted to \$7.4 billion, of which \$3.2 billion was from private sources, compared with an annual average of about \$200 million from private sources in the second half of the 1970s.

The World Bank is now exploring the possibilities of introducing new mechanisms to make cofinancing a more effective vehicle to attract additional capital flows in the present difficult situation in the capital markets and to attract such capital on longer maturities. The Committee endorsed the efforts of the World Bank and the regional banks where appropriate to secure additional flows of resources to developing countries through cofinancing from all sources on terms suitable for and acceptable to borrowing countries. These efforts should in no way alter the development character of the banks. The Committee emphasized that cofinancing with private institutions should be regarded as a supplement to, and not as a substitute for, increased lending by the Bank and that instrumentalities for

increased cofinancing with private sources should be subject to continuing review. The Committee also urged the World Bank to continue its examination of various proposals and to report their decision to the Development Committee at its next meeting.

The Committee noted that the Executive Directors of the Bank have adopted changes in the Bank's borrowing practices and its lending rate policy. A lending program of \$11.2 billion for fiscal 1983 has been agreed to by the Board. The Bank, while continuing to give priority to its traditional medium- and long-term borrowings, has now been authorized to make a cautious and carefully monitored start with borrowing up to \$1.5 billion in short-term instruments in fiscal 1983 and to adopt a variable pool-based lending rate. This action would permit the Bank to exercise more flexibility in tapping a much larger pool of funds and would thus remove a constraint to the planned expansion of its lending program. The Committee endorsed the decision of the Executive Board that the new practice would be subject to a major review before the end of the current fiscal year. The Committee invited the Executive Board of the IBRD and those of other multilateral development banks to continue their study of the scope for expansion, in real terms, of future lending to developing countries in the near term and thereafter.

The important subject of lending for energy development was discussed by the Committee at its Helsinki meeting. In the short time available it has not been possible to identify new approaches or financing mechanisms which attract broad support from those members expected to contribute the bulk of the capital. The Committee reiterated the importance of energy investment in developing countries, noted the limited resources for energy lending within the Bank, and urged the Executive Directors to complete their consideration of matters referred to them at Helsinki and to report on them to the next meeting of the Committee.

In continuation of reports presented to the Committee at its earlier meetings, the Committee considered two separate reports prepared by the Bank and the Fund staffs reviewing actions taken by the two institutions in pursuing those measures to enhance the flow of resources to developing countries that were raised by the Group of Twenty-four Program of Immediate Action and the Brandt Commission Report and that are within the area of their competence. The Committee noted that both the Bank and the Fund had already implemented some of the recommendations applicable to them and are continuing their consideration of other issues relevant to the Committee's work.

The Committee noted the problems of small island and landlocked states and recognized the urgent need to review mechanisms and adjustment prescriptions appropriate to the particular circumstances of such states.

The Committee also considered and approved the annual report on the work undertaken by it during the period July 1981 to June 1982 and authorized its submission to the Boards of Governors.

The Committee expressed its great appreciation to the Government of Canada for its warm hospitality and for the excellent arrangements provided for the meeting.

The Committee agreed to hold its next meeting in Washington, D.C., on April 29, 1983.

September 8, 1982

Twentieth Meeting

At its twentieth meeting in Toronto, Canada, on September 8, 1982, the Development Committee selected His Excellency Ghulam Ishaq Khan, Minister of Finance, Commerce, Planning and Coordination of Pakistan as Chairman.

April 29, 1983

Twenty-first Meeting

The Development Committee held its twenty-first meeting in Washington, D.C., on April 28-29, 1983, under the chairmanship of H. E. Ghulam Ishaq Khan, Minister for Finance, Commerce, and Economic Coordination of Pakistan. Mr. A. W. Clausen, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

The Committee was provided with a brief updated version of the World Economic Outlook circulated at the February meeting of the Interim Committee; this updated version constituted a general background document for its deliberations.

The Committee noted with deep concern that the world economic situation had remained very difficult since it last met in September in Toronto, Canada. The protracted world recession now in its fourth consecutive year has exacted its toll from both rich and poor countries, but its impact has been particularly harsh on non-oil developing countries whose short- and medium-term prospects remain uncertain. World trade declined dramatically in 1982; in this decline the developing countries accounted for a disproportionate share; in 1982 non-oil commodity prices reached their lowest levels in thirty years; and export earnings of developing countries are not yet showing much sign of growth. The situation is further aggravated by declining official development assistance (ODA) in real terms, a slowdown in private capital flows, and the mounting burden of debt. The level of unemployment is unacceptably high and, apart from its social and political impacts, tends to strengthen trends and pressures in favor of protectionist policies and practices. The growth rates have declined in both industrial and non-oil developing countries and in the latter group are now the lowest on record in several decades, with declining real per capita income in many of them.

The economic problems of the developing countries were noted in the Economic Declaration of the Non-Aligned Summit held at New Delhi and the fifth ministerial meeting of the Group of Seventy-seven held at Buenos Aires. They will receive further attention at the OECD meeting in Paris, at the forthcoming Williamsburg Summit, and at the sixth session of the United Nations Conference on Trade and Development.

There have, however, in the recent past been some welcome trends: inflation rates have come down, particularly in some of the larger industrial economies; interest rates have been on the decline although they remain high in real terms; and oil prices have fallen; at the same time, some commodity prices have started to rise. All these factors play an important role in the economies of all countries. Furthermore, the beginning of economic recovery in some of the industrial countries will, if sustained and strengthened, be of great significance. The Committee emphasized the need for industrial countries to pursue policies to promote sustainable and noninflationary growth.

It was against this background that the Committee deliberated at some length on a few selected topics and measures which, if adopted, will help contribute to a resolution of the difficulties which economies of the industrial and developing countries face at present.

In this context, the Committee, taking into account changes in the global demand and supply for external capital, first addressed itself to the need for reviewing the lending programs of multilateral development insti-

tutions (MDIs) in the period ahead and for examining the consequent implications for their capital requirements. This review was in pursuance of the Committee's earlier exhortations at the two previous meetings urging the World Bank and other MDIs to continue their study of the scope for expansion in real terms of their lending to developing countries. Taking into account the great importance of maintaining and increasing external financial flows to the developing countries, the Committee noted with satisfaction the recent approval by the Bank's Board of Executive Directors of a Special Assistance Program designed to be responsive to the current financial requirements of these countries. The Committee invited the Bank to put forward proposals which would, with due regard to financial prudence, allow an expansion of the Bank's lending program. The Committee noted the Bank management's intention to propose an expansion by 5 percent per annum in real terms beginning in 1985. In accordance with past policy and practice of the Bank, the Committee also urged the management of the Bank to present a specific proposal to the Board of Executive Directors for a selective capital increase, following and in line with the Eighth General Review of Quotas in the Fund, by the time of the next Committee meeting.

On the basis of material provided by the regional banks and IFAD, the Committee took note of their resource needs and urged member governments to take steps to meet the pledges already made. The Committee felt that member governments should seek means of financing the requirements of both ordinary capital and the replenishment of concessional funds for these institutions in order to enable them to continue to play their important role in the development efforts of their member countries.

Recognizing that the poorest countries have been most affected by the global recession, the Committee reiterated its concerns about the crucial importance of IDA in financing the development programs of low-income developing countries. Delays in the availability of IDA 6 commitment authority, its subsequent stretching out to four years, and the resultant reduction in intended annual IDA commitments, particularly during the present prolonged global recession, have already had a serious impact on the low-income developing countries, especially in the poorest nations in Sub-Saharan Africa and other regions. Coupled with reductions in overall ODA flows in real terms, this requires the maintenance of concessional assistance at reasonable levels in the face of expanded needs. The Committee therefore urged the United States to provide its full third payment of \$945 million in fiscal 1983 and to complete its IDA 6 contribution in fiscal 1984, recognizing that failure to do so would have serious consequences for safeguarding future levels of concessional assistance.

In a related view, the Committee noted that the extremely serious economic predicament of the poorest developing countries required a major effort on the part of donor governments to ensure that the seventh replenishment of IDA's resources (IDA 7) takes account of the need to accommodate an expanded recipient community and the desirability of reversing negative growth rates in IDA's most distressed borrowing countries. The Committee urged, therefore, that IDA 7 negotiations be completed as early as possible to ensure that the seventh replenishment becomes effective no later than July 1, 1984, and thus to avoid another funding gap.

The Committee reviewed the growth of developing-country debt and expressed its concern about the severity of the debt-servicing problem faced by many of them. While noting the substantial contribution of commercial banks in meeting the severe debt problems faced by some medium-income developing countries over the past several months, the Committee stressed *the importance of avoiding an abrupt reduction in the level of international bank lending to developing countries*. It welcomed the efforts of the Fund and institutions in the main creditor countries to ensure that a reduction in availability of private bank credit does not impede a smooth and orderly adjustment of the domestic economies of the debtor countries. While noting with satisfaction the prompt response by bilateral and multilateral sources to recent critical situations, the Committee emphasized the necessity of maintaining and increasing financial flows to developing countries from official sources. It also noted the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies and also welcomed the joint efforts of the Bank and the Fund to increase their assistance to member countries in the areas of external debt statistics and debt management. The Committee encouraged the Bank and the Fund to keep the important matter of the net capital flows to developing countries under review.

A subject of increasing importance which attracted the Committee's attention related to the linkages between trade and development. The Committee recognized the interdependence of the world economies and found that global economic recovery was critically important for increasing the foreign exchange earnings of developing countries. The expansion of world trade has made and can continue to make an important contribution to the economic growth and development of both industrial and developing countries. In this connection, the Committee welcomed the intensified efforts of the Bank and the Fund to encourage an expanding and open world trading system while remaining sensitive to the special needs of the developing countries. The Committee urged both institutions to collaborate with the GATT in keeping under careful review, in the areas of their

competence, the progress made, including inter alia the dismantling of barriers. It also called upon governments to resist protectionist pressures and to step up their efforts, both at the national level and in the relevant international fora, to liberalize trade, urging in particular that governments of industrial countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries. The Committee urged the Bank and the Fund, in continued collaboration with other agencies, to pursue their examination further in the areas of their competence on the linkages between capital flows, trade, and development and to keep the Committee informed of the results of these examinations.

The Committee noted that since its Toronto meeting the Bank has introduced a set of new cofinancing instruments designed to increase the participation of commercial banks in World Bank projects. The new pattern of participation is intended to provide developing-country borrowers with new benefits such as longer maturities and increased financial flows. The Committee also noted with satisfaction the cofinancing arrangements entered into by the Bank with official lenders. This will be of special significance to low-income borrowing members of the Bank.

The Committee briefly discussed the subject of lending for energy development. A full consideration of the subject was, however, deferred until receipt of a comprehensive study under preparation by the Bank, which will take into account the recent developments and future prospects in this area. A report on this subject will be submitted to the next meeting of the Committee.

The Committee agreed to hold its next meeting in Washington, D.C., on September 26, 1983, at the time of the annual meetings of the Bank and the Fund.

September 26, 1983

Twenty-second Meeting

The Development Committee held its twenty-second meeting in Washington, D.C., on September 26, 1983, under the chairmanship of His Excellency Ghulam Ishaq Khan, Minister of Finance, Commerce and Economic Coordination of Pakistan. Mr. A. W. Clausen, President of the World Bank, Mr. J. de Larosière, Managing Director of the International

Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

The Committee's discussions took place against the background provided by the *World Development Report 1983* of the World Bank and the World Economic Outlook of the IMF. A report by the President of the World Bank highlights some specific development issues. The Committee took note of the discussion in the Interim Committee on the global economic situation and agreed that, although economic recovery had begun in the United States and appeared to be getting under way in a number of other industrialized countries, the situation facing developing countries remained difficult and that external financial difficulties had required significant restraint on domestic demand in these countries. Particular concern was expressed at the prospect that economic growth in the developing countries in general in 1983 was once again expected to be lower than the rate of population increase.

The challenge in the period ahead is how recovery can be sustained, strengthened, and extended in a noninflationary environment. The recovery in the industrialized countries is a necessary but not a sufficient condition for restoring growth momentum in the developing world. In that context, the subject of capital flows to the developing countries, both nonconcessional and concessional, and both public and private, was discussed. In particular, members agreed on the need, in accordance with past policy and practice, to take early action on a selective capital increase for the World Bank, following and in line with the Eighth General Review of Quotas in the Fund. A range of \$3 billion to \$20 billion was discussed. Most members agreed to a selective capital increase of about \$8 billion and requested that Executive Directors work out the specifics with the aim of submission to the Board of Governors by the end of this calendar year.

The Committee also welcomed the intention of the World Bank management to prepare proposals concerning the future role of the Bank and the implications for longer-term capital requirements, including the need for a general capital increase. These subjects will be considered by the Bank's Executive Board in the months ahead. The Committee invited the Executive Board to report on these discussions to the Development Committee meeting in September 1984.

The needs of low-income developing countries, dependent on official development assistance (ODA) were discussed, including the status of the negotiations of IDA 7. No progress was made in the recent negotiations on IDA 7, which were held on September 24, 1983. This was regrettable since the urgency of concluding IDA 7 negotiations by the end of this year was

unanimously accepted. Ministers recognized that the size of IDA 7 should be agreed at a realistic level which recognizes the needs of an expanded IDA recipient community faced with an extremely serious economic predicament and the budgetary constraints of donor countries.

The difficult economic circumstances and prospects of Sub-Saharan Africa were considered in the light of a review of recent World Bank reports. It was noted that a number of countries in this region had adjustment programs under way. Considering the severe decline in the income per capita experienced by these countries, and in order to help sustain and extend the process of domestic economic policy reform, Ministers agreed on the priority attached to an increase of the share these countries receive in external assistance on concessional terms. The Committee urged the World Bank to continue to give particular attention to the problems of Sub-Saharan Africa.

The Committee agreed on the importance of encouraging direct private investment, especially in the poorer countries, and noted the intention of the Bank management to propose expanding the investment program of the International Finance Corporation during fiscal 1984-88 with a capital increase of \$750 million. This would expand capital flows from the World Bank Group to the private sector in the developing countries. The proposal will be considered by the Executive Directors in the next several months.

The Committee reviewed a progress report on energy development and the role of the World Bank in helping mobilize additional funds for this purpose. The Committee took note of the growing need of developing countries for these additional funds for energy development.

The Committee also considered brief progress reports from the Bank and the Fund on the subject of trade and promotion of development, first taken up at its last meeting in April 1983. The Committee agreed to discuss this subject further at its next meeting. In the meantime, the Committee urged all trading nations to reduce their reliance on protectionism.

The draft of the annual report on the work of the Committee from July 1982 to June 1983 was approved by the Committee for submission to the Boards of Governors.

An oral progress report was also received from the chairman of the Task Force on Concessional Flows set up in 1982 by the Committee to study problems affecting the volume, quality, and effective use of concessional flows.

The Committee agreed to meet again in the spring of 1984.

Twenty-third Meeting

The twenty-third meeting of the Development Committee was held in Washington, D.C., on April 13, 1984, under the chairmanship of His Excellency Ghulam Ishaq Khan, Minister of Finance, Commerce and Economic Coordination of Pakistan. Mr. A. W. Clausen, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended.

The Committee discussed the status of IDA and the linkages between trade and development against the background of the world economic outlook as projected in the Fund document and the report by the President of the World Bank. It was noted that while the world economic situation is more promising than a year ago, the achievement of sustained growth and its extension to developing countries require improved policy performance by both the developed and developing countries, an increase of private and official capital flows, and improved trade prospects.

Ministers recalled that at their last meeting most members had agreed on a Selective Capital Increase (SCI) for the World Bank of about \$8 billion. In the process of negotiating the SCI, agreement was reached on the relative contributions of major donors to IDA 7. The Committee noted the agreement reached among most of the major shareholders on share ranking in the IBRD, which had facilitated the agreement on the IDA 7 replenishment. While concern was expressed by members that action on IDA 7 and the SCI had not yet been taken, they were encouraged by the willingness of major shareholders to work toward resolving as quickly as possible the outstanding issues. Ministers urged that shareholders exert maximum effort to obtain the necessary approvals so that the implementing resolutions for the seventh replenishment and the Selective Capital Increase could be considered by the Executive Boards and approved by the Governors in time to permit the legislative action needed if IDA 7 is to become effective on July 1, 1984.

All donors but one expressed concern at the implications of a \$9 billion replenishment, an amount well below the \$12 billion level supported by most. All members except one pointed to the inadequacy of the \$9 billion replenishment, which represents a sharp decline in real terms in relation to IDA 6. Most members asked for accelerated action by IDA management and donors to mobilize up to \$3 billion in a supplementary funding arrange-

ment to be available by July 1, 1984. All donors were urged to participate in this fund on the basis of fair burden-sharing.

The Committee looks forward at its next meeting to suggestions from World Bank management concerning the future role of the Bank and the implications for longer-term capital requirements, keeping in mind the need for a general capital increase. The Committee welcomed progress in the preparation of an expanded investment program for the International Finance Corporation (IFC) through a management proposal of a \$750 million capital increase and called for early action by the IFC Executive Board.

In reviewing the world economic outlook, the Committee took note of the difficulties developing countries continue to experience despite recovery in many industrialized countries. The Committee welcomed the recovery of economic activity that is currently under way in industrial countries at a pace faster than was foreseen. It noted, however, that the effects of this recovery on employment have so far been limited outside the United States and Canada. The reductions in inflation rates which have been substantial in many countries were welcomed. The Committee expressed great concern, however, at the possible consequences of recent increases of key interest rates from an already high level. In reviewing economic conditions in the developing countries, the Committee commented favorably on the fact that, on average, the rate of growth appears to be picking up in these countries, but regarded the continuing low level of that rate, especially in per capita terms, as a danger and a challenge to policy. It was a matter of regret that, in general, little improvement in inflation rates had yet taken place.

The Committee paid special attention to the critical situation faced by the Sub-Saharan African countries. The Committee expressed concern at the grim prospects for the region, reflected in a continued decline in per capita incomes for many African countries, a weakening in external payments positions, depressed commodity prices, a burdensome debt situation, and with rapidly rising population growth a crisis in food production, bordering on famine. These negative features had been exacerbated by continuing severe drought conditions which have now extended to southern Africa, creating human and economic problems of major proportions. It was agreed that increased concessional assistance was urgently needed from both bilateral and multilateral sources to address the immediate problem of food availability and its distribution and to support domestic policies aimed at improving Sub-Saharan Africa's long-term development prospects.

The Development Committee reiterated its earlier view that Africa should continue to receive high priority in the allocation of IDA resources. It

was noted, however, that with a replenishment level of \$9 billion it would be difficult to provide adequate IDA resources to Sub-Saharan Africa, taking into account the needs of other low-income countries. The Committee welcomed an undertaking by the Bank and IDA management to prepare a program for Africa for the September 1984 meeting of the Development Committee to guide the Bank and the international community in helping Sub-Saharan Africa deal with its severe human, social, and economic problems.

The Committee held an extensive discussion on the linkages between trade, finance, and development on the basis of background papers prepared by the Bank and Fund staffs. While the Committee noted with satisfaction that exports had begun to revive, it expressed serious concern regarding the continuing rise in protectionism which is making more difficult the orderly implementation of the adjustment process in all countries, developing and developed. Moreover, for some heavily indebted developing countries relying on the openness of markets, protectionism has aggravated their serious balance of payments problems, making it more difficult for them to service their debt in an orderly fashion. The increase in trade barriers is also retarding the much needed structural adjustment in both developed and developing countries. The Committee emphasized that expanded trade opportunities, including more remunerative prices for primary commodities, would provide a critical impetus to the extension of world economic recovery and contribute to restoring the long-term growth and development prospects of developing countries. Trade liberalization and improved domestic economic policies in all countries, together with enlarged flows of external finance to developing countries, are mutually reinforcing actions which would help accelerate growth momentum of developing countries.

The Committee invited all governments to set up their efforts to seek effective solutions to the current problems in international trade relations, bearing in mind the special needs of the developing countries. The Committee welcomed the indications of a growing interest among governments in launching a new round of multilateral trade negotiations under the aegis of the GATT, which should continue to play the central role in efforts to bring about a more open trading system. These negotiations should consider dismantling nontariff barriers and other measures affecting the trade of developing countries. The Committee considered that it could usefully supplement these efforts by playing a more active part in strengthening governments' resistance to protectionist pressures and encouraging trade liberalization. Accordingly, it invited members to discuss in future meetings progress reached on improvements in trade opportunities, particularly for the developing countries. It also invited the Director-General of the

GATT, at the Committee's future meetings, to present his appraisal of progress in measures to strengthen the multilateral trading system and to liberalize trade affecting developing countries. The Committee urged the Bank and the Fund to continue their efforts to encourage an expanding and open world trading system. The Committee considered that, by keeping under review the linkages between trade and the promotion of development, it could provide continuing support to the work of the GATT and UNCTAD and thereby help ensure the coherence and consistency of actions in the international financial and trade fields.

The Committee expressed its satisfaction with the progress achieved so far by the international community in addressing the debt problem of developing countries. The Committee requested that the Fund and the Bank continue to examine the debt problem of developing countries.

The Committee also took note of a study on investment incentives and performance requirements undertaken by the World Bank on the recommendation of the Task Force on Private Foreign Investment. The study will facilitate a better understanding of the impact and choice of policies pertaining to international direct private investment.

The Committee appointed Mr. Fritz Fischer to succeed the present Executive Secretary, Mr. Kastoft, with effect from July 1, 1984, and placed on record its appreciation of the services rendered by him.

The Committee agreed to meet again on September 23, 1984, in Washington, D.C.

Joint Ministerial Committee of the Boards of Governors
of the World Bank and the International Monetary Fund
on the Transfer of Real Resources to Developing Countries
(Development Committee)

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