



DEVELOPMENT COMMITTEE
OFFICE MEMORANDUM



October 19, 1995

TO: Executive Directors, World Bank and IMF
FROM: Alexander Shakow, Executive Secretary
SUBJECT: History of the Development Committee

As you will remember, "The Development Committee: Its Origins and Achievements, 1974-1990" was published as a Development Committee pamphlet in 1991.

My predecessor asked Mr. Turan S. Kivanç to update this booklet to cover the last four years. Mr. Kivanç has done a very thorough job of this, adding a good deal of material about the last eleven meetings which he has presented in a thematic fashion.

I attach a copy of this document for your files. I believe it is a good source of reference about the Development Committee.

cc: Steering Committee

From -: Turan S. Kivanç ~~et al.~~

Subject : Overview of the Development Committee (1990-95) and
Thematic Analysis of its Work from 1990 to September 1995

CONTENTS

Page No.

I. Development Committee:	
Terms of Reference and Organizational Structure	
1. Origins	1
2. Mandate	1
3. Structure and Composition	2
4. Role and Functions of the Chairman	3
5. Status and Role of the Committee's Secretariat	4
6. Procedures and Administrative Arrangements	6
II. Chronological Analysis of the Committee's Work	
1. The First Three Phases (1974-90)	8
2. The Fourth Phase (1990-95)	8
III. Thematic Analysis of the Committee's Work (1990-95)	
1. Development Priorities for the 1990s	11
2. Transfer of Resources	13
3. Legal Framework for the Treatment of Foreign Investment	20
4. Private Sector Development	22
5. Poverty Reduction	24
6. Human Resource Development	28
7. Women in Development	30
8. Debt Strategy and its Impact on the Development Prospects of the Severely Indebted Countries	32
9. Structural Adjustment Experience and Financing Needs of Developing and Transition Countries	38
10. Environment and Development	45
11. Population and Development	53
12. International Trade and the Impact of Uruguay Round on the Developing and Transition Countries	56
13. Other Global Priorities	
a. The Gulf Crisis	62
b. Impact of Natural Disasters	62
c. Middle East Peace Process (Gaza and the West Bank)	63
d. Desertification	63
14. Aid Effectiveness	64
15. Financing of Infrastructure	69
16. Review of the Performance of the Development Committee	71-75

Annexes:

- I. Parallel Resolutions
- II. Members of the Committee
- III. Observers of the Committee
- IV. Troika Recommendations to Strengthen the Development Committee

I. THE DEVELOPMENT COMMITTEE:
TERMS OF REFERENCE AND ORGANIZATIONAL STRUCTURE

1. ORIGINS

In 1974 the Governors of the International Monetary Fund and the World Bank created two ministerial committees: The Interim Committee of the IMF deals with international monetary matters; The second, the Development Committee, deals with the transfer of real resources to developing countries. As specified in 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", 1/ it has a unique character. The Development Committee is the main joint ministerial body of both Bretton Woods institutions and focusses attention, in particular, on the problems of the developing countries.

The creation of the joint Bank/Fund Committee was based on a recommendation made by the Committee on the Reform of the International Monetary System and Related Issues--the so-called Committee of Twenty which was charged by the IMF Board of Governors with drawing up a new set of rules after the 1971 collapse of the original Bretton Woods system. The Development Committee consequently was established by the Parallel Resolutions of the Board of Governors of the World Bank and the IMF (Annex I). 2/

2. MANDATE

The Committee of Twenty's (C-20) "Outline of Reform" was essentially concerned with the monetary aspects of the world economic system. With a view of the special interests of developing countries, the C-20 stressed that the promotion of economic development was an important objective of reform. Accordingly, it considered that the new flow of resources to developing countries should be given positive encouragement. It then recognized that further work needed to be undertaken beyond that being done on reform of the international monetary system. The C-20 proposed, therefore, that the Development Committee consider the broad question of the transfer of

1/ Parallel Resolutions of the Board of Governors of the World Bank (IBRD Governors Resolution No. 294, October 2, 1974) and the IMF (IMF Governors Resolution No. 29-9, October 2, 1974).

2/ Chairman Mourad Cherif of Morocco observed that the forty-ninth meeting, held in Madrid on October 3, 1995, marked the twentieth anniversary of the Development Committee. Its inaugural meeting took place in Washington on October 2 and 3, 1974. Some of the original participants were present in Madrid: Mr. Abdlatif Al-Hamad of Kuwait attended as a member; Mr. Alexandre Kafka of Brazil was still serving as Executive Director; and Mr. Jacques de Groote of Belgium, an Executive Director at the first meeting, attended as a special advisor.

resources to developing countries in relation to existing and prospective arrangements among countries, including those involving: international trade and payments; the flow of capital; investment; and official development assistance.

The C-20 thought that the Development Committee should give attention to the problems of the least developed countries, and those developing countries most seriously affected by balance-of-payments difficulties at that time.

The C-20 also thought that the Development Committee 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. It would serve as a vehicle to ensure efficient and prompt consideration of development issues and coordination of international efforts to deal with problems of financing development.

Like the Interim Committee of the IMF, the Development Committee was created as an advisory body to the Boards of Governors, not as a decision-making body of the Bretton Woods institutions. As outlined in Article 4(a) of the Parallel Resolutions, the Development Committee:

- (a) shall maintain an overview of the development process;
- (b) shall advise and report to the Board of Governors of the World Bank and the IMF on all aspects of the broad question of the transfer of real resources to developing countries;
- (c) shall make suggestions for consideration by those concerned regarding the implementation of its conclusions.
- (d) shall review, on a continuing basis, the progress made in fulfillment of its suggestions.

3. STRUCTURE AND COMPOSITION

The Development Committee is now composed of 24 members 1/ who must be governors of the World Bank or the IMF, ministers or others of comparable rank (Annex II).

The members of the Committee are designated by each member country of the World Bank and the IMF that appoints an Executive Director or by individual countries or by groups of countries that elect an Executive Director. In addition, each member and group appoints seven associates in order to

1/ The Committee was originally composed of 20 members. Separate membership status was designated to Saudi Arabia and China. Both became individual members in the 1980s; so did the Russian Federation in 1992. Switzerland set up the 24th constituency in 1993.

enable members of the constituencies that do not have representation on the Committee to participate in the meetings. 1/

The composition of the Committee alternates between that of the World Bank's Board of Executive Directors and that of the IMF Board of Executive Directors. 2/

The Committee also has 20 observers who are invited to attend its meetings, in accordance with the Parallel Resolutions (see Annex III).

4. ROLE AND FUNCTIONS OF THE CHAIRMAN

The Committee selects a Chairman from among its members.

Since the inaugural meeting of the Committee in October 1974 through July 1995, there have been twelve chairmen:

Henri Konan Bédié, Minister of Economic and Finance of Côte d'Ivoire (1974-1976)

Cesar E.A. Virata, Minister of Finance of the Philippines (1976-1980)

David Ibarra Muñoz, Secretary of Finance and Public Credit of Mexico (1980-82)

Manuel Ulloa Elias, Prime Minister and Minister of Economy, Finance and Commerce of Peru (May-September 1982)

Ghulam Ishaq Khan, Minister for Finance, Commerce and Economic Cooperation of Pakistan (1982-86)

B.T.G. Chidzero, Senior Minister for Finance, Economic Planning and Development of Zimbabwe (1986-90)

Alejandro Foxley, Minister of Finance of Chile (1990-92)

Ricardo Hausmann, Minister of State and Head of CORDIPLAN of Venezuela (September 1992-June 1993)

Rudolf Hommes, Minister of Finance and Public Credit of Colombia (September 1993-April 1994)

1/ In practice, 10 chairs (the Member + 7 Associates + 2 Executive Directors--Bank and Fund) are reserved for each constituency at every regular plenary session of the Committee.

2/ For the period Fall 1994-Fall 1996, the composition of the Development Committee is based upon World Bank constituencies.

M'Hamed Sagou, Minister of Finance of Morocco (April-July 1994)

- Mourad Cherif, Minister of Finance and Foreign Investments of Morocco (July 1994 to March 1995)

Mohamed Kabbaj, Minister of Finance and Foreign Investments of Morocco (April 1995 to date)

In accordance with an unwritten convention established in the early days of the Committee, all of the Chairmen have been selected from amongst developing countries on a regional and rotational basis -- in practice, Sub-Saharan Africa, Asia, Latin America, the Middle East and the North Africa region.

The normal term of office is two years, but in a number of cases the incumbents have served two terms.

The Chairman is responsible for all operational aspects of the Committee within the broad parameters formally defined by the Board of Governors and the Members in their resolutions and decisions. The Chairman reports to the Members of the Committee and makes all main decisions in consultation with them. Although assisted in the discharge of Development Committee responsibilities by the Troika ^{1/} and by a Secretariat, the Chairman is seen as the ultimate authority.

5. STATUS AND ROLE OF THE COMMITTEE'S SECRETARIAT

The Committee's Secretariat has a unique status: It is headed by an Executive Secretary selected by and responsible to the Committee. Its budget is covered in equal proportions by both the World Bank and the International Monetary Fund (as stated in Article 5.d and 6 of the Parallel Resolutions).

At the first meeting of the Committee on October 3, 1974, the Members agreed that while the Chairman would be from a developing country, the Executive Secretary would be a representative of an industrial country in order to provide balance and to ensure direct commitment and participation of the industrial countries in the work of the Committee. The Executive Secretary is, in general, elected through a secret ballot by the Members of the Com-

^{1/} The origins of the "Troika" go back to the 1979 Ten Points which stated that the Chairman and the Heads of Institutions would be jointly responsible for organizing the Development Committee's work to facilitate more effective performance. The "Troika" is now composed of the Committee's Chairman, Mohamed Kabbaj, the President of the World Bank, James D. Wolfensohn, and the Managing Director of the IMF, Michel Camdessus. It meets two or three times a year. It is chaired by the Chairman of the Committee and the Executive Secretary is the Secretary.

mittee for a three-year term which may be renewed or extended by the Committee. As stated in the Parallel Resolutions (Article 5.d), the Executive Secretary is entitled to participate in all meetings of the Committee.

From its inception to July 1995, the Committee has been served by six Executive Secretaries:

Henry J. Costanzo, United States (1974-76)
Sir Richard King, KCB, MC, United Kingdom (1976-80)
Hans E. Kastoft, Denmark (1981-84)
Fritz Fischer, Germany (1984-87)
Yves L. Fortin, Canada (1987-91)
Peter Mountfield, United Kingdom (1991-June 1995)

Since a ministerial review of the future of the Development Committee 1/ has been postponed until the Committee's October 9, 1995 meeting, the Ministers (at the Spring 1995 Meeting) endorsed an interim arrangement for the Executive Secretary position following the end of Mr. Mountfield's term in June 1995. Mr. Alexander Shakow, a senior Bank official, became Acting Executive Secretary on July 1, 1995 and, subsequently, was formally proposed by Mr. Wolfensohn and Mr. Camdessus, to be Executive Secretary by the Members of the Development Committee.2/

From 1974 to 1979, the Committee had a fairly large Secretariat which was comprised of at least six officers and four staff assistants provided by the Institutions. There were also working groups, composed of senior officials from the capitals. In 1979, in compliance with the so-called "Ten Points", the Secretariat size was reduced significantly; in practice, the Executive Secretary was to be supported by only an advisor and two senior staff assistants. In the Fall of 1987, the Committee, then chaired by Minister Chidzero, endorsed the Potter Report 3/ which defined the role and responsibilities of the Executive Secretary; the "Advisor" position was thereby made a full-time position within the budget of the Secretariat. The aim was to strengthen the "independent status" of the Secretariat and to formally ensure the participation of developing countries in the work of the Secretariat. Since then, the Secretariat has been served by two Advisors selected by the Chairman in consultation with the Executive Directors and the Troika: D.R. Clark from Jamaica (1987-1990) and Turan S. Kivanç from Turkey (1990 to October 1995).

1/ Refer to Part III, section 16.

2/ Mr. Shakow was selected Executive Secretary at the October 9, 1995 meeting.

3/ The Development Committee, at the request of Chairman Chidzero, designated six Bank Executive Directors--Canada (as Chair), France, the Gambia, India, Mexico and the Netherlands--to clarify certain aspects of the position of Executive Secretary. The Committee endorsed their report (dated April 13, 1987), (thereafter referred to as the Potter Report) on a no-objection basis on July 20, 1987.

The Executive Secretary, supported by an Advisor and a Steering Committee, 1/ has been responsible to the Committee for carrying out the work directed by the Chairman.

6. PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS

The Committee meets at the time of the Annual Meetings of the Boards of Governors of the World Bank and the IMF (currently every fall), and in addition as often as required (currently every spring). 2/ A quorum for any of its meetings is two-thirds of its members.

The Members, Associates, Executive Directors of the World Bank and the IMF, or in their absence their alternates, are entitled to participate in all plenary sessions of a regular meeting unless the Committee decides to hold a restricted session.

In each morning plenary session of the Committee's regular meetings, after the Chairman's opening remarks, it has been the practice for the Heads of the institutions and the Chairman of the Group of Twenty-Four to address the Committee. Then Members are invited to discuss the agenda items on the basis of the reports presented by the Heads of the World Bank and the IMF as well as the issues papers, prepared by the staff of the institutions. Since 1992, supplementary papers, commissioned by the Chairman from independent authors or other international organizations or member governments are also submitted to the Committee. Observers can make written contributions relating to the Committee's agenda items and, upon the invitation of the Chairman, may also address the Committee. The working luncheon meeting--the so-called Chairman's Lunch--is traditionally restricted to the Members of the Committee (or their designated alternates) and the Heads of the Bretton Woods institutions. This session, which is an integral part of the meeting, allows Members to exchange views on key, sensitive issues. It is during this lunch that the Ministers have cleared the draft communique.

In the afternoon, the second plenary session is set up with a focussed agenda. 3/ The topics are usually introduced by (two or three) Members designated by the Chairman as lead speakers. The Members participate in the discussion as they are recognized by the Chairman to speak. The Communique

1/ The Steering Committee was established by the 1987 Potter Report as a formal coordination mechanism between the Committee's Secretariat and the Managements of the Bretton Woods Institutions. The Executive Secretary serves as Chairman, the Advisor acts as Secretary, and the World Bank and IMF are each represented by two members.

2/ In practice, special meetings have been convened for the purpose of selecting a Chairman.

3/ In recent years, the afternoon plenary sessions have been held only in the Fall meetings.

is formally adopted at the closing plenary session. 1/ The Communique provides information to the media about the Committee's deliberations, and gives such guidance and direction to the institutions on policies and operational issues as the Ministers may deem useful and desirable. The closing session is immediately followed by a joint press conference given by the Chairman, the President of the World Bank and the Managing Director of the IMF.

The Development Committee must report not less than once a year to the Boards of Governors on the progress of its work. To facilitate completion of its work program, 2/ the Committee may from time to time establish sub-committees or task forces. It may also request assistance from international organizations or other bodies or individuals.

The President of the World Bank, Mr. James D. Wolfensohn, in his June 15, 1995 letter to Chairman Kabbaj, suggested some important changes in the format and conduct of the Fall 1995 meeting, along with a number of other proposals to improve the function of the Committee. The Troika later endorsed these proposals.3/ The approval of the Troika recommendations on format and conduct for future meetings by the Members at their 51st meeting to be held on October 9, 1995 would open a new era in the work of the Committee meetings and change some of the arrangements described above.4/

1/ In recent years, particularly in the spring meetings, the Communiques have been approved during the working lunch or afternoon plenary sessions thus eliminating the need to convene a closing session.

2/ The Task Force on the Multilateral Development Banks is the most recent group established by the Committee.

3/ The Troika recommendations on the conduct of the Fall 1995 meeting and administrative arrangements of the Committee were endorsed by the World Bank and the IMF Boards of Executive Directors in their meetings held on September 5 and 8, respectively.

4/ The Troika recommendations were approved by the Committee at its October 9, 1995 meeting.

II. CHRONOLOGICAL ANALYSIS OF THE COMMITTEE'S WORK

1. THE FIRST THREE PHASES (1974-90)

An earlier publication by the Committee ^{1/} reviewed the Committee's work in the context of three time frames: each work period addressed the special economic conditions in the world which affected developing countries during that time.

- a. In the period immediately following its establishment, the Committee dealt with the economic and financial impact of the first oil shock (1973-74) and the emergence of generalized floating.
- b. In the late 1970s, the Committee's agenda reacted to the recycling of OPEC surpluses and to the increased commercial bank financing of developing countries.
- c. In the 1980s, the Committee's work reflected concern for the consequences of the second oil shock (1979-80) and the period of external debt problems and adjustment in the Third World.

The authors of that publication presented a thematic analysis. In the third phase, the themes discussed included: (i) external debt; (ii) the role of the World Bank and the IFC; (iii) Sub-Saharan Africa; (iv) environment; (v) transfer of resources; (vi) poverty; (vii) trade and development; and (viii) the impact of industrial countries' policies.

2. THE FOURTH PHASE (1990-95)

In this current historical update of the Committee's work, the period from 1990 to the end of September 1995 is defined as the fourth phase and is described by the dominant themes of its time.

The majority of Development Committee's agenda items during this period have reflected the impact of several historical political events, prevailing world economic outlook and the evolving global priorities on the prospects of the developing and transition countries including their implications for the role of the Bretton Woods institutions.

In fact, several historic events occurred which would reshape the world political scene. Among these were: the establishment of new republics in the former USSR, the changes in the Central and Eastern European countries since the collapse of the Berlin Wall, the peace treaty between Israel and the Palestine Liberation Organization, the end of apartheid and the political transition in South Africa, the increase in the number of members of the

^{1/} The Development Committee, "Its Origins and Achievements", first printing: August 1991, ISBN 0-8213-1806-3

IFIs and the establishment of a multilateral development bank in Europe. All these have presented new pressures on the traditional demand-and-supply balance of resource flows.

Since the mid-1980s, there have been striking moves toward the adoption and implementation of sound macroeconomic policies, adjustment programs, promotion of private sector and market-friendly reforms in a number of developing countries. These moves have helped to reveal an important fact: the relatively homogeneous character of developing countries, in general, is changing rapidly to evolve into a highly diverse set of countries.

From the point of view of the Committee's mandate, these developments have significantly impacted the trend and volume of external flows and transfers. In fact, in the 1990s, annual totals of net long-term financial flows have increased significantly due to striking developments in private flows. Consequently, an increasing number of middle-income countries (including China and India) have been able to access private capital markets. Although this was encouraging progress, the growth rate of private flows has shown a considerable slow-down since 1994 and furthermore its scope was limited mainly to creditworthy adjusting countries. This showed that globalized international markets could be volatile and selective. Consequently, other issues came into play -- such as sustainability and volatility of the private flows, in particular after the Mexican case and policy management. These new issues confronted by developing countries have also required assistance from the Bretton Woods Institutions. There are also issues on the official flows side. Those questions are: how to maintain at least the aggregate level of official flows, in particular those concessional flows in real terms; how to increase aid quality and aid effectiveness; what should be the new criteria for eligibility.

During the early 1990s, the Ministers have been keenly aware of the impact of industrial countries' policies on the growth and adjustment prospects of the developing countries. ^{1/} This phenomenon was due to the declining economic growth and activity in the industrial countries. In 1993, this trend was associated with rising unemployment and a slowdown in the rate of growth in the volume of world merchandise exports. Consequently, the growth of merchandise export volumes from low-income and middle-income countries decelerated. Despite developing countries' efforts for their own trade liberalization, some industrial countries have maintained or even enhanced their protectionist measures. In 1994, much uncertainty existed about the timing and speed of economic recovery in industrial countries. These prospects also increased concerns about the continuation of a rising trend in resource flows which will assist the efforts of developing and transition countries to adjust and stabilize their economies.

^{1/} International Monetary Fund, 1994 Annual Report, p.4; and the World Bank, Global Economic Prospects and the Developing Countries, 1994, p.5

Meanwhile, the successful conclusion of the GATT's Uruguay Round of multilateral trade negotiations was good news. It would bring developing countries substantial new economic opportunities and benefits by providing expanded access to export markets, clarification and strengthening of the rules governing that access, as well as guarantees for the settlement of disputes. The conclusion of NAFTA is another example of progress in the international trade arena at the regional level. The impact of the Uruguay Round on the developing countries and economies in transition, however, will create a new challenge for some of these countries as well as for the multilateral institutions during the second part of the 1990s.

The evolving global priorities such as environment, population, migration, health issues (e.g., AIDS), illegal drugs, refugees, and peace-keeping needs have also brought new challenges. In this regard, three important UN Conferences -- the first, on environment in Rio de Janeiro, a second on population in Cairo (1994), and a third on social development in Copenhagen (1995)--took place and will have significant implications on the policies of the developing countries, the donors and the IFIs in reaching the objectives of poverty-reduction, human resource development and protection of the environment. In addition to major natural disasters, these global problems require additional financial flows and assistance.

All these challenges--including the continuation of budgetary constraints as well as "aid dependency" and "aid fatigue" considerations in some industrial countries--have pointed to the need for a change in economic management so that financial flows can be used by the recipient countries in a more effective and efficient manner. This necessitates more coordination among the recipients, donors and IFIs. With respect to the roles of multilateral agencies, it requires flexibility and selectivity; more concentration on good governance; client ownership and participation; and getting results. ^{1/} There are other key issues to be confronted: promoting democracy, encouraging market orientation, private sector development, strengthening public management capacities, preventing corruption and reducing military spending. Progress is critical to bilateral and multilateral confidence in maintaining and enhancing financial flows to developing and transition countries.

The Committee is also concerned about the cost effectiveness of the major Multilateral Development Banks and the World Bank. A Task Force was set up in 1994 to review the development role being played by them.

These developments demonstrated that the central mandate of the Committee is still valid and most of those key issues will be reflected in its agenda during the second half of the 1990s.

^{1/} The World Bank, "Evolving Role of the World Bank: The First Half Century, An Overview", K. Sarwar Lateef, Washington, DC 1994

III. THEMATIC ANALYSIS OF THE COMMITTEE'S WORK (1990-1995)

This section reviews the work of the Development Committee from 1990-September 1995. It is described in the following sixteen thematic areas. The analysis is based on the findings and conclusions of the reports prepared by the heads of the Bretton Woods institutions, the staff papers and in particular the Communiqués of the Committee.

1. DEVELOPMENT PRIORITIES FOR THE NINETIES

a. Priority development objectives

At its Fall 1991 meeting in Bangkok, the Committee agreed that the priority development objectives for the 1990s are: 1/ (i) the reduction of poverty; and (ii) the achievement of sustainable-growth. Actions to protect the environment are essential to both objectives.

The Ministers reconfirmed that the Committee's main task for the 1990s is the implementation of these objectives, and that resource flows are essential to achieve this. The Committee also agreed that the attainment of these objectives would depend on several mutually-supporting factors, such as: (i) the complementary roles of the state and private sector; (ii) the strength of developing country human resources and institutions; (iii) the creation of a market-friendly environment for development; (iv) the economic policies pursued by both developing and industrial countries; and (v) the availability of domestic resources.

In the light of these priorities and factors, the Committee recognized that the roles of developing and industrial countries need to be reconsidered as follows:

b. Role of the developing countries

The Ministers recognized that if the present resource constraints continue, there will be great pressure on the adjusting developing countries to pursue further economic reforms in order to mobilize domestic resources, attract foreign direct investment and increase the efficiency of capital use.

The Ministers therefore believed that reforms can help create a stable market environment in developing countries as long as they reflect certain prerogatives. These are: free and undistorted pricing, open trade policies, transparent and non-discriminatory investment policies and an appropriate financial, legal and regulatory framework, supported by effec-

1/ Development Committee Pamphlet No. 28, "Development Priorities for the 1990s and Implications for the World Bank", Washington D.C. October 14, 1991, pp. 22-31

tive and accountable political and administrative systems. With regard to financing, the Ministers noted that fiscal reform would release resources to help finance poverty reduction programs and essential investment in social sectors. The Committee agreed that the reduction in global and regional tensions should help developing countries reduce excessive and unproductive arms expenditures. The Ministers concluded that adjustment efforts could present short-term problems and consequently require the establishment of safety nets.

c. Role of industrial countries

The Ministers acknowledged that economic reform in the developing countries should be complemented by improvements in trade, energy, industrial and agricultural policies of the industrial countries. The Committee concluded that the industrial countries could play more effective roles by providing developing countries with wider access to world markets; reduction of trade distortions and trade barriers, and creation of a stable and predictable trading environment. They also recognized a need for some donor countries (particularly those with assistance levels below the 0.7% ODA/GNP target) to make further efforts and a need for additional relief for the poorest countries going well beyond the relief already granted under Toronto Terms. The Committee welcomed the readiness of the G-7 London Summit leaders to intervene with one another in cases where differences can only be solved at the highest level.

d. Implications for the World Bank and IMF

The Committee agreed on the importance of promoting the private sector as one of the World Bank Group's priorities and urged the Bank to implement its Private Sector Development Plan of Action. The Committee requested that the World Bank and the IMF prepare a comprehensive study of the outlook for resource flows and continue to consider how best they could support the reform efforts of adjusting countries. The Ministers stressed the need to maintain positive net transfers from the World Bank. In translating agreed objectives into operations, the Committee recognized that the World Bank's Board of Executive Directors and Management need to consider a series of trade-offs. The Ministers concluded that the issue for the World Bank is effective implementation in the design of assistance strategies and lending operations. The Committee endorsed the recent shift in pattern of the World Bank's lending and the projections for the following three years (1992-94) which indicated an increased share going to human resource development. The Committee noted with satisfaction the increased collaboration between the IMF and the World Bank in providing countries with policy advice and technical assistance. The Committee concluded that such advice should be related to the circumstances of individual borrowers, and be worked out with the support of other international agencies in order to exploit the comparative advantage of each, to maximize the impact and to avoid undue overlap.

2. TRANSFER OF RESOURCES

The topic of "transfer of real resources to developing countries" was accepted by the Boards of Governors as the central mandate of the Committee in 1974. Since then, it has been a main issue for the Committee.

a. As a standing item

At its Fall meeting in 1989, the Committee agreed that all future agendas include, as a standing item, trends in the transfer of resources. It requested that the report presented by the President of the World Bank include a section on the transfer of resources.

b. As a valid issue during the 1990s

At its Fall 1991 meeting in Bangkok, the Committee concluded once more that resource flows from bilateral and multilateral sources to the developing and transition countries would be essential in assisting their efforts for the achievement of the 1990s priority development objectives of poverty reduction and sustainable growth, while taking actions to protect the environment.

c. General outlook for flows and transfers (1990-95)

In reviewing and following-up resource flows and transfers to developing countries, the Committee saw an encouraging outlook for the early 1990s. Aggregate net resource flows (ANRF) ^{1/} and aggregate net transfers (ANT) ^{2/} have shown sharply rising trends from 1990-94, compared to those experienced from 1985-89. ^{3/} Due to striking developments in private flows, ^{4/} the annual total of ANRF reached a new record in 1994. ^{5/} This changed the composition of ANRF significantly in favor of private flows. ^{6/} The return of flight capital contributed considerably. Foreign Direct Investment (FDI) is now the largest single source of external financ-

^{1/} Aggregate net resource flows (ANRFs) equal net flows of long-term debt (loan disbursements minus loan principal repayments -- amortization) (plus) official grants (excluding technical assistance) (plus) net flows of equity investment and portfolio equity investment, within the World Bank debtor reporting system.

^{2/} Aggregate net transfers are calculated by subtracting loan interest payments and Foreign Direct Investment (FDI) profits from the total of aggregate net resource flows.

^{3/} The World Bank Annual Report 1994, p.27, Table 2.4.

^{4/} The annual total of private flows was \$38.3 billion in 1989 and exceeded \$172.9 billion in 1994. (World Debt Tables, 1994-95, Volume I)

^{5/} The annual total of ANRF which was \$79.4 billion in 1989, exceeded \$227.4 billion in 1994 (World Debt Tables, 1994-1995, Volume I).

^{6/} In 1987, official flows represented about 65% of ANRF; the share of private flows was 35%. A complete reversal is observed in 1992 and 1993.

ing. A slowdown was observed in private flows starting from the end of 1993. For instance, there was a sharp increase in commercial bank lending in 1992. But this reversed itself in 1993. The prospects for international bond issues were also not promising. The disturbing lag in progress for "poorer" countries is related to the stagnating, even declining, trend of official flows, in particular ODA. The decline in government-to-government financing was quite significant for most of the low-income countries which do not have access to capital markets and dependent aid flows. 1/ Within official flows, the welcoming shift is from loans to grant financing.

Such a remarkable increase of ANRF at the beginning of the 1990s has also reflected positively in the ANT. 2/ Although inequalities in the regional distribution of ANT have continued, no region has shown any negative net transfers in recent years. This was, in general, a positive development from the point of view of the Development Committee's central mandate.

d. The Committee's Approach to Resource Flows in the Early 1990s

In addition to its normal review, based on the President's report at the 1990 and 1991 meetings, the Committee in its Fall 1992 and Spring 1993 meetings considered the issue of resource flows as a main agenda item.

In the Fall of 1992, the Ministers discussed a very wide-ranging review on the resource flows and transfers to developing countries, prepared by the World Bank and the IMF. 3/ It covered all forms of flows and transfers. This overview was intended to serve as an introduction to more detailed work in future meetings on private, and later on official flows to the developing countries. A dramatic finding, which Chairman Alejandro Foxley pointed out, is that something over 90% of all investment in developing countries, taken in aggregate, has been financed by domestic savings in those countries. Nevertheless, the need for external resources is obvious. The Ministers concluded that, for most developing countries--in addition to their domestic savings--earnings from trade must be supplemented by external sources. One of the important themes which emerged from this meeting was the need to place all these external flows into a wider context. Another interesting finding is that, for an increasing number of developing countries, a large part of external resources is provided in the form of FDI. The Committee

1/ In Sub-Saharan Africa, aid could amount to as much as 40% of GNP in some countries.

2/ ANT which had a negative trend up to 1988, with an average total of minus \$5 billion, reached a positive level in 1989, with a total of \$2 billion; ANT have then risen sharply; their annual total increased from \$26 billion in 1990 to a record level of \$137 billion in 1994. However, for a better assessment, the ANT need to be analyzed on a country-by-country basis and each flow should be reviewed within a specific time frame.

3/ Development Committee Pamphlet No. 30, "Resource Flows to Developing Countries", pp. 30-63, Washington D.C., September 21, 1992.

concluded that the measures which promote domestic investment are likely also to attract foreign investors and the return of flight capital; consequently, the maintenance of macroeconomic stability and the creation of a climate favorable to enterprise are essential.

In the Spring of 1993, the Committee again reviewed the topic of resource flows by focusing on private sector flows as presented in the joint issues paper of the World Bank and the IMF. 1/ The Ministers also had several supplementary papers prepared by other international organizations and from distinguished outside contributors. 2/ In his paper, 3/ Chairman Ricardo Hausmann outlined the issues as follows: For the first tier of developing countries, who have either never lost access to financial markets or have recently regained it, the prospects were good--provided they maintain creditworthiness through the pursuit of sensible macroeconomic policies. The issue was how this could best be done. For the second tier, mainly in the middle-income bracket countries who are within sight of breaking into the markets, the question was to determine what actions were needed, either by their own governments, by those source countries, or by the IFIs. For the third tier, mostly countries in the IDA-eligible category, the issue was different since their main external source of funds during this decade would be ODA.

At that meeting, the Ministers, while welcoming the increasing trend in private flows, expressed concern that private flows were concentrated in a small number of developing countries. They emphasized that the challenge before the international community was to enlarge this number as quickly as possible. The Ministers did not attempt to lay down detailed guidelines. The general feeling was that if the macroeconomic policies were right, and if the business environment was market-friendly, then domestic and foreign investment would follow naturally without the need for many positive incentives. The Ministers recognized that in many places, both in source and

1/ Development Committee Pamphlet No. 31, Joint Issues Paper on "Developing Country Access to Private Capital Flows", pp 39-61, Washington, D.C., May 1, 1993.

2/ Ibid., (i) "Facilitating Financial Flows to Developing Countries", Japan, pp. 85-87. (ii) "The Experience of Developing Countries in Attracting Foreign Direct Investment, Thailand, Indonesia, Malaysia, Singapore", pp. 88-176. (iii) "Promoting the Private Sector", United Kingdom's Experience of FDI - pp. 177-182. (iv) "Enhancing the Flow of Private Financing For infrastructure Projects in Emerging Market Countries", David Bock. pp. 183-187. (v) "Transfer of Private Resources to the Developing Countries", Moeen Qureshi, pp. 188-194. (vi) "Export Finance as a Source of Funding For Developing Countries", Malcolm Stephens, pp. 195-200. (vii) "Measures for Enhancing the Flow of Private Capital to the Less Developed Countries", Joseph E. Stiglitz, pp. 201-211. (viii) "Private Capital Flows to Developing Countries". Alexander R. Love, pp. 212-215 (ix) "New External Financing for Latin America and the Caribbean", SELA, pp. 216-221.

3/ Ibid., "Chairman's Paper", Washington, DC, May 1, 1993, pp.1-5.

host countries, there were market imperfections which served to deter the free flow of funds. However, many of these could be reduced by appropriate action by member governments or by the IFIs. The Committee, therefore, agreed on the following conclusions in five main areas: (i) Role of domestic resources in developing countries: The top priority is for developing countries whenever possible to increase the volume of domestic savings and improve the effectiveness of their use. A high level of investment in the private sector, originating from domestic savings, is important for sustainable economic growth. Obviously, private foreign flows and ODA play a complementary but crucial role in this process. (ii) A supportive business environment for private flows: Host countries have the prime responsibility for creating a business environment attractive to foreign investors: The Committee called on the industrial countries and the IFIs to do all they can to remove unnecessary institutional and regulatory barriers and to catalyze greater volumes of investment. The Committee also requested that the IFC help by doing more to support investments in poorer countries. (iii) Foreign direct investment (FDI): FDI is the most valuable form of private external finance. 1/ The Committee therefore encouraged industrial countries and IFIs to play their part by providing technical assistance, investment sector lending, fuller information, guarantees and, where appropriate, financial support. The Committee requested that the World Bank and the IMF strengthen their efforts to promote an environment favorable to a higher contribution by the private sector to development and increase the flows of FDI. (iv) Portfolio equity investment (PEI) 2/ and bond issues 3/ Domestic capital markets should be further expanded; The Committee called on the World Bank Group and the IMF to provide continuing support for market development. The Committee also encouraged both industrial and developing countries to speed up the removal of the remaining restrictions to portfolio flows, particularly by facilitating greater participation of institutional investors. Moreover, the Committee called on the governments of "source"

1/ FDI is non-debt creating and the least volatile component of private flows. It also facilitates the transfer of technology in production and management and the promotion of export market development. The annual total of FDI increased from about \$24.7 billion in 1989 to \$77.9 billion in 1994, and represents 34% of ANRF, as the single largest flow.

2/ The annual total of PEI increased from \$3.8 billion in 1990 to \$46.9 billion in 1993. In 1994, the total however reduced to \$39.5 billion.

3/ In the 1990s, many developing countries used international bond finance. The peak year was 1993; when the total rose to \$42 billion. A slow down is observed at the end of 1994 due to increasing interest rates in industrial countries and a period of turbulence in international bond markets. In any case, such progress is one of the consequences of the increase in securitization (bonds and equities) in global markets during the 1980s. After the debt crisis and the increased ratio of funds managed by institutional investors, commercial banks have continued to transform more and more loans into capital market instruments. Moreover, bonds have often been treated as superior to loans and, at least in bearer form, may be harder to reschedule.

countries to review and address the remaining obstacles preventing access to securities markets by creditworthy developing country borrowers.

(v) Commercial bank lending: Commercial bank lending is not always a suitable form of long-term development finance, or available or appropriate for countries facing severe balance-of-payments deficits; some increase in the volume of trade finance and project lending may occur, ^{1/} but commercial bank lending to developing countries is unlikely to return to previous levels: The Committee requested that the IFIs encourage efficient mobilization of financial resources by promoting effective investment reforms, privatization and financial sector reforms. The Committee also called on industrial countries to review their regulatory mechanisms and requirements regularly. In doing so, they would examine the scope for easing constraints on trade and project finance to developing countries, without weakening proper prudential supervision.

d. Prospects for private flows in 1994 and 1995

In its Fall 1994 meeting in Madrid, the Committee recognized uncertainties about the sustainability of private flows. It therefore urged countries not currently receiving such flows to improve their creditworthiness through macro-economic reform, and to create a climate favorable to sound private sector development. The Committee asked the World Bank Group, the IMF and industrial countries to continue their efforts to encourage private flows to all developing and transition countries.

At the Spring 1995 meeting, President Preston reported that the globalization of financial markets was an important and beneficial development that was likely to continue; the Mexican crisis was, however, likely to usher in a more cautious attitude on the part of investors and to dampen the growth in private sector flows. "The global market is unforgiving: it generously rewards efficient policies but swiftly punishes inefficiency and failures to act", the President added. The Ministers noted that although ANRFs to all developing countries continued to rise, from \$213 billion in 1993 to \$227 billion in 1994, a record level, there was a sharp slow-down in the growth rate of ANRFs with a ratio of 6.6%, as compared those experienced in previous years--close to 23% in 1992 and 39% in 1993--even before the Mexican crisis. This was due to private flows. Although the annual total of private flows increased from \$159 billion in 1993 to about \$173 billion in 1994, their growth rate became less than 9% after

^{1/} The annual total of commercial bank lending was minus \$2.5 billion in 1990. It became positive in 1991 and then increased to \$18.5 billion in 1992. In 1993, the annual net total became minus \$-2.2 billion. Most developing countries are now repaying old loans to the commercial banks (after debt reduction--Brady-initiative--in many cases). New lending is now highly concentrated on the private sector, usually in the form of project finance, short-term loans and trade-related credits. Old-style, balance-of-payments lending by the commercial banks has ended. This makes a repetition of the 1982 debt crisis less likely.

remarkable jumps of 63% in 1992 and 55% in 1993. This showed that the spectacular surge of private flows, experienced in the beginning of the 1990s, decelerated markedly in 1994 and 1995. In its Communiqué, the Committee welcomed the continued high level of total resource flows and the increase in various forms of private finance, especially FDI which does not add to debt-servicing burdens. The Ministers, at a time of rapid globalization and liberalization of financial markets, noted the recent high volatility of financial flows, as exemplified by currency movements, and the decline of portfolio flows. They also recognized that markets are likely to be more selective in their provision of such capital; this progress emphasized the need for recipient countries to follow sound macro-economic policies to gain or maintain access to private markets, and to mobilize significant domestic savings. The Committee urged recipient countries to avoid excessive reliance on short-term flows to finance longer-term development needs. The Ministers acknowledged that the strong policy base and solid long-term prospects of many developing and transition countries suggest that these countries should be able to attract continued FDI flows.

f. Official flows

In every meeting from 1990-94, the Committee agreed that official development assistance (ODA) remains essential both for poorer countries and those presently unable to attract sufficient private capital. The Ministers pointed to the continued stagnation in flows of ODA, despite increased needs, and invited donor countries to do their best, as circumstances permit, to increase aid particularly where it still falls short of 0.7% of GNP. The Committee also called on industrial countries to consider further ways of increasing flows of officially supported export finance. The Ministers recognized the need for multilateral action to complement the efforts of bilateral donors. During this period, an agreement was secured on IDA-10 replenishment. Another positive development, was the extension of the period for commitments under the IMF's ESAF to November 1993. President Preston also assured the Ministers that the current capital base of IBRD was sufficient to sustain and enhance the volume of lending to existing borrowing member countries, while providing substantial support for the economic reform and adjustment efforts to the Former Soviet Union (FSU) countries.

In its Fall 1994 meeting in Madrid, President Preston reported that the outlook for ODA continued to be unfavorable and urged Members to resist efforts to reduce the volume of aid; the poor also depended on IDA; the President hoped that IDA would be able to depend on donor support in the negotiations that lay ahead. The Committee noted the slow rate of growth in ODA, and called on donor countries to increase aid as soon as possible and put greater focus on the poorest countries.

In the Spring 1995 meeting, Mr. Camdessus, the Fund Managing Director, informed the Ministers that the Fund's Board of Executive Directors had begun consideration of modalities for funding a continuation of ESAF operations, and would pursue this as a matter of priority. The Ministers

noted the support expressed in the recent Interim Committee meeting for a self-sustained ESAF. President Preston reported that it was the third year in a row that ODA has held at around \$44 billion; and this situation was particularly troubling for the low-income countries. Mr. G.S. Kaji, the Bank MD who represented the retiring President Preston at the meeting, added that IDA was at an absolutely critical juncture and needed the Committee's support. The Committee in the Communique expressed concern about the prospect of a fall in total ODA 1/ and urged continued support for IDA and the SPA.

Experience shows that the topic of transfer of real resources to the traditional recipient developing countries as well as to the economies-in-transition in Eastern and Central Europe and the FSU, will continue to be the main concern of the Committee. The reason is not only that it is a requirement of the Committee's terms of reference; 2/ most important, the increasing trends of private flows had recently slowed down significantly and official flows have been stagnating or even declining in real terms and projections of the aggregate resource flows to those countries, particularly for the second half of this decade, are not promising.

1/ In fact, as stressed by Ambassador James H. Michel, Chair of the OECD Development Assistance Committee (DAC), in the DAC annual report, total ODA disbursements fell sharply in 1993, from \$60.8 billion to \$55.9 billion, bringing the ODA/GNP ratio for DAC Members down to 0.30%; this represents the lowest ratio reported since 1973 as compared to the so-called UN target of 0.7% (ODA/GNP); (1994 OECD/DAC Report, p.2).

2/ "The Development Committee: Its Origins and Achievements 1974-1990", pp.15-18.

3. LEGAL FRAMEWORK FOR THE TREATMENT OF FOREIGN INVESTMENT

An important achievement of the Committee during the fourth phase was to ensure the preparation of Guidelines for the treatment of FDI. On the initiative of the Minister of Economy of France at the Spring 1991 meeting, the Committee recognized that an overall legal framework to embody the essential legal principles was necessary for the promotion of FDI. It urged MIGA to consult with other competent institutions and report back to the Spring 1992 meeting. Following the Committee's meeting, President Preston assigned the task of developing an appropriate legal framework to a Working Group consisting of the General Counsel of the Bank, IFC and MIGA.

In its Fall 1991 meeting, the Committee received a progress report on this issue which stated that an appropriate legal framework is regarded as a basic prerequisite in developing countries' efforts to create a business environment characterized by stability and predictability where transactions are governed by pre-established rules and disputes are settled fairly and without undue delay according to such rules. The Ministers recognized that the Guidelines could not replace existing bilateral and multilateral treaties or national legislation; but they are meant to be recommended by the Committee to member countries as acceptable international standards which complement applicable treaties. They are also meant to apply to bona fide private foreign investments which operate in full conformity with the laws and regulations of the host state. The objective of the proposed Guidelines is not therefore to pronounce definitive rules of international law (in an area where consensus is absent) but to identify, on the basis of existing legal instruments reflecting broadly acceptable norms in state practice, those rules deemed most appropriate to a hospitable environment for foreign investment, but also balanced in character and likely to receive broad international acceptance. ^{1/} The Chairman of the G-24, Minister Alhaji Aboubakar Alhaji (Nigeria), stressed that the G-24 welcomed the progress report but urged that the proposed guidelines not constitute an additional lending conditionality of the World Bank.

In May 1992, the Working Group completed its report and the Investment Guidelines presented covered each of the four main areas usually dealt with in investment treaties--the admission, treatment, expropriation of foreign investments and settlement of disputes between governments and foreign investors. Then, before submitting the Investment Guidelines to the Development Committee, the Working Group consulted extensively with the EDs from the World Bank Group and other representatives of interested member countries, intergovernmental organizations, business groups and international legal associations.

^{1/} Development Committee Pamphlet No. 29, "Progress Report: Legal Framework for the Treatment of Foreign Investment", Washington, DC, April 28, 1992, pp. 96-102.

The Ministers, at the Committee's Fall 1992 meeting, reviewed the Investment Guidelines with interest and brought them to the attention of member countries. 1/ The Committee concluded that the purpose of the Investment Guidelines is to promote fair and equitable international standards for the general treatment of all FDI in the absence of applicable treaties, and the Investment Guidelines should be of particular value to developing countries. The Ministers also expect the Guidelines to serve as an important step in the progressive development of international practice in this area as well as to facilitate further developments through bilateral treaties and similar instruments.

The Investment Guidelines and accompanying documents were published and made available to a wider audience in the legal community by the World Bank.
2/

1/ Development Committee Pamphlet No. 30, "Legal Framework for the Treatment of Foreign Investment (Guidelines on the Treatment of Foreign Direct Investment)", Washington, D.C., September 21, 1992, pp. 64-92.

2/ (i) The World Bank Group, Legal Framework for the Treatment of Foreign Investment, Volume I. Survey of Existing Instruments, 1992.

(ii) Volume II. Guidelines, 1992.

(iii) See also, Ibrahim R.I. Shihata, "Legal Treatment of Foreign Investment", Martinus Nijhoff Publishers; Dordrecht, Boston, London; 1993

4. PRIVATE SECTOR DEVELOPMENT (PSD)

Since the beginning of the 1990s, the Committee has put greater emphasis on the role and contribution of PSD. This was a reflection of the growing emphasis given particularly by a number of developing countries to the role of the private sector -- the promotion of domestic and foreign investment, market-oriented policies in their development strategies in order to increase efficiency in utilizing scarce resources, and to mobilize higher levels of domestic resources. The Ministers recognized that PSD was also an important emerging issue given recent developments in the countries of Eastern and Central Europe and the new republics of the FSU in this regard.

The Committee considered this issue first in its Spring 1990 meeting. The discussion was based on the question of the contribution of the private sector to development and the roles of the World Bank Group and the IMF.^{1/} The Ministers recognized the importance of creating an enabling environment which is favorable to private sector activities; the need to adopt appropriate legislation and administrative practices; and the complementarity of the roles of efficient and well-managed private and public sectors. The Ministers also acknowledged that infrastructure and social services are vital to the support of PSD. With respect to external resources, the Committee stressed the need for developing countries to mobilize FDI and repatriate flight capital. The Committee urged the World Bank and the IMF to assist developing countries' efforts to implement long-term institutional, regulatory and legal reforms, consistent with their socioeconomic situations. The Committee also encouraged the IFC's Board to continue discussion of the adequacy of the capital of the IFC. The benefits that countries could derive from membership in the MIGA were also emphasized. While encouraging the World Bank Group agencies to give a very high priority to PSD, the Committee requested that the implementation of the World Bank's action plan for PSD be reviewed at its next meeting.

At its Fall 1990 meeting, the Committee welcomed the progress made under the World Bank's PSD action program to support (i) the promotion of an enabling environment, (ii) public sector restructuring, including privatization, and (iii) the acceleration of the pace of financial sector reforms.^{2/} The Committee also welcomed the growing emphasis given to market systems and the role of private initiative in the development strategies. The Ministers stressed the role that the World Bank Group can play in reaching small urban and rural private sector enterprises and encouraged the World Bank Group to increase its efforts to assist the development of indigenous entrepreneurship and a locally based private sector. The Committee also reiterated its call on the World Bank Group to give a very high prio-

^{1/} Development Committee Pamphlet No. 24, "The Contribution of the Private Sector to Development, and the Roles of the World Bank Group and the IMF," May 8, 1990, pp. 36-47.

^{2/} Development Committee Pamphlet No. 26, "The World Bank Group and Private Sector Development", Washington, DC, September 24, 1990, pp.68-77.

rity to PSD in its operations and to continue expanding the scope of its activities, including new approaches and instruments and to prepare a report on these issues for consideration by its Board of Executive Directors. This was an important policy direction for the management of the World Bank Group with respect to the private sector promotion roles of the IBRD and IDA.

In the Spring of 1991, the Ministers welcomed the recent steps undertaken in the World Bank Group's PSD activities, particularly the working party set up by President Conable, to improve coordination within the Group. The Committee called on the World Bank Group to adopt the President's plan of action which involved a vigorous and integrated approach to the PSD and an even stronger role for the IFC. The Committee urged the IFC's Board of Directors to complete its review of the operational policies and adequacy of the capital of the IFC. 1/

At its Spring 1993 meeting, the Committee reviewed a report by the World Bank Group on its PSD strategy. The Ministers welcomed the emergence of a new generation of loans through which the World Bank supports policy, regulatory and legal reforms directed at improving the day-to-day environment in which firms operate. The Committee commended the work already done. It called on the World Bank Group to make even greater progress by promoting small and medium-scale industry and the entrepreneurial role of women, by encouraging the private sector in developing countries, especially the poorest, and by supporting the necessary underpinning public sector reforms.

In its Fall 1994 meeting in Madrid, the Committee welcomed the World Bank publication, "Learning from the Past--Embracing the Future" which underscored that one of the five major challenges of the World Bank Group will be "stimulating the private sector".

At the Spring 1995 meeting, Mr. G.S. Kaji, the Acting President of the Bank, informed the Members that through the combined efforts of the World Bank Group, support for PSD had taken on a much greater emphasis in both advisory and lending services; IBRD, IDA, IFC and MIGA combined, now leveraged an estimated \$25 billion a year in private investment. The Committee (during the discussion of the agenda item on financing infrastructure) 2/ made several recommendations related to the role of the private sector in infrastructure. For instance, while recognizing that governments have a continuing responsibility, whether as providers or regulators of infrastructure, the Ministers stressed that efficiency requires more business-like management and increased involvement of the private sector. The Ministers also recognized that improvement will involve more use of private finance in various forms.

1/ The proposal, which envisaged an IFC capital increase of \$1 billion, was endorsed by the IFC Board of Directors on June 28, 1991.

2/ For more information, refer to section 15 of Part III.

5. POVERTY REDUCTION

Since the mid-1970s, one of the major concerns of the Committee has been the endemic incidence of mass poverty trends in many developing countries. President McNamara in his statement during the 1973 Annual Meetings in Nairobi 1/ sought to change the World Bank's focus from infrastructure to poverty reduction. Since then, the Committee has welcomed the World Bank's initiatives to place greater emphasis on poverty in its operations.

The Committee discussed the policies for effective reduction of poverty in the 1990s as major agenda item in the Fall 1990 meeting. 2/ As Chairman Chidzero said in his opening statement, "... the persistence of massive poverty in the world suggests that existing efforts and strategies might not have been commensurate with the problem; it is, therefore, time to re-examine these strategies ...". The conclusions of the World Development Report (WDR) 1990 and the UNDP's 1990 Human Development Report provided a strong motivation for the Committee to agree that the objective of a sizable poverty reduction is the highest priority. A broad consensus was emerging on how to achieve this goal. The Ministers stressed that the poverty reduction objective would be most effectively achieved through the adoption of national development strategies. These include sound macroeconomic and structural policies, which (i) encourage sustainable growth that increases income-earning opportunities for the poor, and (ii) develop the human resources of the poor. The Committee concluded that the above strategies should be supplemented by selectively targeted social safety-net programs. The Committee also agreed that governments of developing countries bear the primary responsibility for poverty reduction, but that their efforts should be supported. Ministers recognized that key elements for success included "good governance" and "involvement of the poor in the design and execution of development projects and programs". The Committee encouraged all parties concerned to discuss their poverty reduction approaches, programs and goals in the framework of their policy dialogue.

At this meeting, the Committee welcomed the initiative of the World Summit for Children that would focus international attention on the survival, protection and development of children. Noting the strong emphasis placed by the World Bank on poverty reduction lending programs and operations, the Ministers urged it to play a central role in helping to realize the objectives of this Summit through the further expansion of its programs in the areas of primary education and health care.

In the Spring 1991 meeting, the Ministers considered the financial implications of development policies aimed at poverty reduction in the con-

1/ "The McNamara Years at the World Bank", The John Hopkins University Press, 1981, Chapter 12.

2/ Development Committee Pamphlet No. 26, "Strategies for the Effective Reduction of Poverty", Washington, DC, September 24, 1990, pp. 24-39.

text of transfer of resources. ^{1/} As Chairman Foxley stressed in his opening statement, the key issue was, "Are we able and willing to devote increased financial resources to fight poverty?" The Committee agreed that aid donors and multilateral development agencies should examine their operational policies to ensure that their external assistance more fully supports the implementation of recipient countries' national development strategies aimed at lasting poverty reduction. The Ministers acknowledged that there is considerable scope for improving allocation of resources and increasing the efficiency of their use. As President Conable pointed out, too much public spending continues to be devoted to activities that make little contribution to poverty reduction such as "white elephant" construction projects. The Committee emphasized the need to reallocate excessive military expenditures for the first time. The important role of private sector investment in generating income-earning opportunities for the poor was also recognized. The Committee concluded that adequate external resources are necessary; and these resources should mainly be of a concessional nature and directed to low-income countries pursuing appropriate development policies, including poverty reduction. The Committee invited donor countries, particularly those with assistance levels below the 0.7 per cent ODA/GNP target, to make further efforts.

The Committee, however, held the view that any additional aid volume should be accompanied by a number of improvements in aid delivery, and asked for further efforts in the following areas: (i) meaningful untying of bilateral aid; (ii) selective and limited recurrent-cost financing; (iii) initiatives to enhance the effectiveness of technical assistance; and (iv) means to improve the coordination of concessional resources. The Committee called upon the providers of concessional resources to examine how to reallocate their assistance toward those poor countries. Regarding the role of the Bretton Woods institutions, the Ministers welcomed the World Bank policy paper on poverty and supported the intention to implement a plan of action designed to translate the conclusions of the 1990 WDR on poverty into operational practices and budgetary priorities. The Committee requested a progress report for its Spring 1992 meeting. The Ministers noted the IMF's continued efforts to assist member countries in the pursuit of sound economic policies, while protecting the poor through appropriate measures, including the use of social safety nets. The Committee urged the World Bank, together with the relevant U.N. agencies, to further strengthen their cooperation in improving: (i) the database on poverty; (ii) poverty monitoring, and (iii) the division of labor among their operational activities which are of a poverty-oriented nature. Members underscored the need for the IMF to rely on this improved database in its work on poverty issues.

In its Spring 1992 meeting, the Ministers regretted to acknowledge that due to the worsening economic situation the number of poor people will

^{1/} Development Committee Pamphlet No. 27, "The Financial Implications of Development Policies for Poverty Reduction", Washington, DC, April 20, 1991, pp. 28-38.

increase at the end of the century, despite their earlier hope of a substantial reduction. 1/ The Committee reaffirmed its view that poverty reduction must remain the World Bank-Group's main priority. Every effort should be made to apply this priority at the country level in designing individual lending operations and the production of poverty assessments, and allocating the necessary staff resources with appropriate skills. The Ministers noted that the IMF pays full regard to the impact of members' IMF-supported adjustment programs on the poor, and helps member countries to integrate social safety nets into their reform programs.

In the Spring 1993 meeting, Mr. Preston reported that "the IBRD and IDA have continued to intensify their broad array of activities designed to help borrowers more effectively confront their poverty-reduction challenges along two key dimensions: (i) explicitly incorporating poverty-reduction objectives into country assistance strategies; and (ii) increasing lending which concentrates on promoting broad-based growth, providing the poor with access to physical infrastructure and basic social services, and eliminating policy distortions that adversely affect the interests of the poor. 2/ In addition, greater support is being given to the design and establishment of safety nets to protect the most vulnerable members of society during adjustment and/or transitional phases of lending operations." 3/ The President added that "by the end of FY95, poverty assessment are scheduled to be completed in 80 countries:.

The Committee noted the progress made in this area and called on the World Bank to further increase its focus on poverty reduction.

In its Fall 1994 meeting in Madrid, the Committee welcomed the World Bank's publication "Learning from the Past--Embracing the Future" which showed that the fundamental objective of the World Bank Group is "to help borrowers reduce poverty and improve living standards through sustainable growth and investment in people". To this end, "pursuing economic reforms to enhance growth and reduce poverty" is recognized as one of the five major development challenges to be confronted by the World Bank Group in the medium and long-term.

In the Committee's Spring 1995 meeting, President Preston, in his report, showed certain data about poverty in the developing countries and

1/ Development Committee Pamphlet No. 29, "Implementing the World Bank's Assistance Strategies to Reduce Poverty", Washington, D.C., April 28, 1992, pp. 72-95.

2/ "Implementing the Bank's Poverty Reduction Strategy: Progress and Challenges", Report No. R92-233, World Bank, December 30, 1992.

3/ It is noted that the most common safety nets have been nutrition programs, labor-intensive public works, and targeted food subsidies.

stressed that poverty remains the greatest global challenge. 1/ The President added that the World Bank has learned a great deal during the past 50 years about how to meet that challenge; and as a result poverty reduction has received much more systematic attention to the following: (i) open markets and policies that generate labor-intensive growth; (ii) investing in people -- education, health, nutrition, family planning -- so that many more can contribute to growth; (iii) the crucial role the private sector can lay in generating growth; (iv) strong institutions, good governance, and ownership of programs; (v) the links between environmental protection and poverty reduction; (vi) the need for broad participation in economic development. The Ministers noted that the World Bank's poverty reduction strategy relies on two mutually reinforcing approaches; (a) labor intensive growth; and (b) investment in people.

1/ In the beginning of 1995, in the developing world, a billion people still live on less than \$1.00 a day. Eight million children die every year from easily preventable diseases. 100 million girls never get the chance to go to school. With 3 billion people about to be added to the world population in the next generation -- 95% of them in poor countries -- and incomes in the richest countries growing nearly three times faster than those in the poorest countries. In the President's previous report (dated October 3, 1994) it is also pointed out that two out of five people do not have basic sanitation or clean water; about half of the people of Sub-Saharan African are trapped in poverty.

6. HUMAN RESOURCE DEVELOPMENT (HRD)

In the Fall 1991 meeting in Bangkok, ^{1/} the Committee considered the issue of "the development of human resources in developing countries". The Ministers agreed that reducing poverty and spurring economic growth are the development priorities for the 1990s and reaffirmed the World Bank's conclusion that HRD is at the heart of any strategy to this end. The Ministers also agreed with the 1991 WDR that "investing heavily in people makes sense not just in human terms but also in hard-headed economic terms". In order to achieve these goals, the Committee agreed that mutually reinforcing action was needed by all parties concerned as shown below:

a. Role of developing countries in HRD

Recognizing the differing needs of developing countries, the Committee called on those governments to review their strategies for HRD. The Committee also urged those governments to ensure that, in framing their overall budgets, they make provision for HRD budgets increasingly on basic human services, especially in health care, including population policies, and toward the wider provision of primary education, given the exceptionally high long-term payoff in this area. Finally, the Committee drew the attention of those governments to the benefits which can sometimes follow from diversifying sources of funding and delivery of services to include private sector and NGOs, even where governments themselves must retain the primary responsibility for ensuring their provision.

b. Role of donor community in HRD

The Committee called on the donor community at large to give high priority to HRD investment. The Ministers noted that tied aid is not usually an appropriate instrument in this area. The Committee drew attention to the need to balance support for capital and for current expenditure and urged that grants and loans for HRD projects be so structured as to ensure that the projects could continue on the strength of local revenues once external support is phased out. It agreed that the high payoffs from well-designed HRD investment merit some increase or redirection of the total of ODA. The Committee encouraged donors to pool their experiences and to concentrate their efforts in areas where their own expertise was greatest.

c. Role of the World Bank and the IMF in HRD

The Committee asked the World Bank to continue reviewing HRD policies and to present a synoptic account of progress in future publications, which will help donors and recipients to keep track of trends. The Committee endorsed the World Bank's strategy of HRD and welcomed the Bank's projected

^{1/} Development Committee Pamphlet No. 28, "The Development of Human Resources in Developing Countries", Washington, DC, October 14, 1991, pp. 32-44.

increase in HRD lending from about 6 per cent in the early 1990s to about 15 per cent of total Bank lending on average in FY92-94. ^{1/} The Committee also noted with satisfaction that primary health care accounts for about 3.5 per cent of total Bank lending, and that primary education takes about 2.1 per cent. It also encouraged the IMF to continue increasing its emphasis on the social aspects of adjustment.

In the Committee's Spring 1993 meeting, President Preston reported that "Investment lending for HRD ... has increased almost five-fold over the past decade -- from an annual average of about \$635 million in FY80-82 to over \$3 billion per annum in FY90-92 or about 14 percent of total Bank/IDA lending. Another measure of lending, the Program of Targeted Interventions, included 52 projects in FY92 in a wide range of sectors: agriculture and rural development; education; water supply and sewerage; and population, health, and nutrition. The total value of these interventions amounted to 14 percent of new Bank/IDA lending in FY92. Meanwhile, an increasing share of Bank/IDA structural and sectoral adjustment lending included an explicit poverty focus. In FY92, 18 adjustment loans supported the reorientation of public expenditures, the establishment of safety nets, and/or the elimination of distortions affecting the poor."

In the Fall 1994 meeting in Madrid, the Committee welcomed the World Bank Publication "Learning from the Past--Embracing the Future" which described "Investing in People" as one of the five major development challenges of the World Bank in the future.

In the Committee's Spring 1995 meeting, Mr. G.S. Kaji, Acting President of the Bank, informed the Ministers that the World Bank's lending for HRD had quintupled over the 1980s to an annual average of \$3 billion a year, and was projected to rise to \$5 billion annually over the next three years (1996-98). This, in effect, made the World Bank the largest external financier in the developing world in areas such as education, health, nutrition and AIDS prevention. The Ministers also noted this progress and the outcome of the Copenhagen Social Summit which recognized the significance of social development and human well-being for all and gave these goals the highest priority both now and into the twenty-first century. The Committee agreed to discuss the implications of the Social Summit at its Fall 1995 meeting.

^{1/} The FY96 IBRD/IDA budget document indicated that the ratio of the Human Resources Sector (which includes Education, Population, Health, Nutrition Sectors and Social Development Funds) to the average total of FY93-95 IBRD/IDA Lending Program Allocation was 16.3%. For the FY96, Management estimates that this ratio will be 19.7%.

7. WOMEN IN DEVELOPMENT (WID)

The Committee considered enhancing the economic role of women in development as an agenda item in its Fall 1990 meeting. The Ministers welcomed the increasing recognition in both industrial and developing countries of the critical contribution of women to economic growth and development. ^{1/} The Committee agreed that a major effort and a strong commitment to concrete action was needed. The Committee drew attention to the fact that governments have the primary responsibility for promoting women's economic potential within their own specific socio-cultural framework. The Ministers, therefore, encouraged governments to design WID policies and strategies in consultation with relevant groups such as women's associations and respective NGOs. The Committee stressed that the best method of assisting women is to enable them to raise their own productivity and income; and improving opportunities for women will foster development and also contribute effectively to other development objectives--such as reducing poverty, improving children's health and education, easing population pressure and conserving natural resources.

The Committee concluded that the main objective can best be accomplished by focusing on the following five priorities: (i) education for women; (ii) family planning and maternal health care; (iii) agricultural extension and other related services for women farmers; (iv) provision of credit facilities to female entrepreneurs, and (v) access to labor markets. The Committee urged governments to remove constraints affecting women by adopting or revising legal codes and regulations, as may be required, in order to guarantee women equal rights including ownership and use of productive assets, and opportunities to take part in all sectors of the economy. The Committee also encouraged governments and bilateral and multilateral development institutions to further integrate WID objectives in their activities. The Ministers acknowledged the encouraging progress made so far by the World Bank. The Committee, however, called on the World Bank to further increase the resources it devotes to WID and to strengthen its institutional capacity to integrate these issues more effectively into its country strategies, economic and sector work, policy dialogue and actual lending operations. The Committee also requested that the World Bank prepare a progress report on its WID activities for its Fall 1991 meeting.

In its October 1991 meeting in Bangkok, the Committee considered a progress report which demonstrated that the World Bank Group was increasingly addressing WID issues in the design of its policy lending and advisory activities, with the strong support of many of the recipient countries and with due sensitivity to social and cultural factors. The Ministers were pleased with these efforts. The Committee however urged the World Bank to further emphasize implementation of its policy objectives on WID through its

^{1/} Development Committee Pamphlet No. 26, "Enhancing the Economic Role of Women in Development", Washington, DC, September 24, 1990, pp. 60-67.

economic and sector work and through lending operations. The Committee asked for a further progress report in two years' time.

In its Fall 1993 meeting, the Committee welcomed a report on the World Bank's attempts to integrate gender issues into its overall development strategy. The Ministers commended the progress made, and welcomed Mr. Preston's commitment to a further strengthening of the Bank's operations in WID. 1/

In the Fall 1994 meeting in Madrid, the Committee, while welcoming the World Bank Publication "Learning from the Past--Embracing the Future", acknowledged that the "...World Bank will further increase operations designed to remove barriers to women's participation in economic development", as outlined in "Investing in People".

In the Committee's Spring 1995 meeting, President Preston reported that women-in-development was one of the key elements to supplement the World Bank's poverty reduction strategy. He stressed that "... Investing proportionally more in women is crucial to reduce poverty. Improving girls' access to education is probably the single most effective antipoverty policy in the world today. Almost one-half of the World Bank-supported projects in FY94 had components aimed specifically at including and benefiting women up from only 10% five years ago...". Mr. Preston also pointed out that "the Fourth UN World Conference on Women to be held in Beijing in September 1995 will help reiterate the World Bank's messages on gender".

1/ The World Bank's WID strategy was considered by the Board of Executive Directors in 1994.

8. DEBT STRATEGY AND ITS IMPACT ON THE DEVELOPMENT PROSPECTS
OF THE SEVERELY INDEBTED COUNTRIES

Following the debt crisis in mid-1982, the Committee consistently pursued the external debt problem of developing countries, in tandem with the Interim Committee. Its interest in this key issue is outlined in the following five sub-categories:

a. Middle-income countries largely indebted to commercial banks
(strengthened debt strategy)

In its Spring and Fall 1990 meetings, the Committee reaffirmed its support for the strengthened debt strategy it had endorsed at its Spring 1989 meeting. This strategy was based on a cooperative framework between the debtor countries, the commercial banks and official creditors. 1/ While welcoming the increasing number of debt and debt-service reduction packages, the Ministers expressed concern about some cases of slow paced negotiations. The Committee emphasized the crucial importance for debtor countries to adopt appropriate growth-oriented adjustment programs as a basis for debt and debt-service reduction. 2/ The Ministers also welcomed U.S. efforts to implement the "Enterprise for the Americas Initiative" designed to promote investment, growth and debt reduction in Latin America.

In the Spring of 1991, the Committee welcomed the further progress in the implementation of the Brady initiative. 3/ The Ministers stressed that a number of debtor countries required further attention given the constraint that their debt burden, and in some cases, current policies, continued to affect their budgetary positions and ability to attract FDI and the return of flight capital. With a view to the pace of negotiations, the Committee urged debtor countries and commercial banks to accelerate negotiations and to reach agreements. The Committee also called on the World Bank and the IMF to continue support for debt and debt-service reduction packages with the necessary flexibility under established guidelines.

1/ Development Committee Pamphlet No. 26, "The Debt Strategy and Its Impact on Severely Indebted Countries", Washington, D.C., September 24, 1990, pp. 40-59.

2/ Under the Brady Plan, commercial banks agreed to write down or restructure at below-market rates part of their outstanding loans to a developing country that had adopted a sound macroeconomic adjustment program. In the framework of a debt reduction agreement, the modality of restructuring, from a menu of possibilities, is selected by each commercial bank. The key factor is the provision of finance from official sources (i.e., the IMF, the World Bank, Inter-American Development Bank or an official bilateral donor such as Japan) to assist the debtor government to provide collateral and meet other up-front costs of the agreement.

3/ Development Committee Pamphlet No. 27, "The Debt Strategy and Its Impact on Developing Countries: Progress Report", Washington, DC, April 20, 1994, pp. 78-88.

In the Fall of 1991 in Bangkok, the Committee concluded that progress in implementation remained slow in more complex cases and required continued efforts by all parties. 1/ The Committee called on the World Bank and the IMF to jointly prepare an updated progress report for its next meeting. This report should also include a review of developments related to the area of banking supervision.

In its Spring 1992 meeting, the Committee welcomed the recent agreements reached with commercial banks. Those agreements cover nine countries and account for more than 60 per cent of the commercial bank debt of the major debtor nations. 2/ The Ministers considered the impact of current accounting, taxation and supervisory practices as they relate to the willingness of commercial banks to conclude debt reduction agreements, and noted that these had not been a significant barrier. The Committee agreed to consider further whether such procedures seriously inhibited new lending.

In the Fall of 1992, the Committee welcomed the progress in the implementation of debt strategy, including recent arrangements with Argentina, Bolivia, and Brazil. Similar arrangements have now been reached with 12 countries and account for more than 90 per cent of the commercial bank debt of the major debtor nations.

In the Spring of 1993, the Committee acknowledged the successful resolution of the debt problems of many middle-income developing countries which has permitted a small increase in commercial bank lending.

b. Lower middle-income countries, largely indebted to bilateral official creditors

In the Spring 1990 meeting, the Ministers again expressed concern about uncertain prospects for a return to external viability and sustained growth for a number of severely indebted lower middle-income countries whose debt is mainly to official creditors. The Committee, therefore, asked the World Bank and the IMF to continue to analyze debt problems of those severely indebted middle-income countries with significant official debt.

In the Fall of 1990, the Ministers recognized that prospects for external viability remained difficult for some of those countries, even in cases where there was significant strengthening of domestic policies. The Ministers therefore welcomed the consensus by Paris Club creditor countries to lengthening repayment periods and permitting equity and other debt conver-

1/ Development Committee Pamphlet No. 28, "The Debt Strategy and Its Impact on the Development Prospects of Severely Indebted Countries: Progress Report", Washington, DC, October 14, 1991, pp. 59-76.

2/ Development Committee Pamphlet No. 29, "The Implementation of the Debt Strategy and Its Impact on the Development Prospects of All Severely Indebted Countries (including developments in the area of Banking Supervision): Progress Report", Washington, D.C., April 28, 1992, pp. 58-71.

sion in reschedulings. By praising recent bilateral decisions by a number of creditor countries, the Ministers stressed that any review of additional options should take into account the need for debtor countries to benefit from increased new financial flows. All creditor countries were invited to consider taking further measures in favor of those adjusting lower middle-income countries on a coordinated and case-by-case basis.

In the Spring of 1991, the Ministers welcomed the adaptation of debt restructuring terms introduced recently by the Paris Club. These included the lengthening of repayment terms and the option of debt swaps in rescheduling. The Committee recognized the importance of closely monitoring progress in this area.

In the Committee's Spring 1992 meeting, President Preston reported that growing official recognition of the need for additional debt relief for lower-middle-income countries on a case-by-case basis came at the London G-7 Summit in July 1991, which signalled its desire for further progress by noting the Paris Club's continued examination of the special situation of some lower-middle-income countries. He noted that another significant development in 1991 was the decision by the Paris Club to offer exceptional debt relief, of up to 50% in present value terms, to Egypt and Poland.

In its Fall 1992 meeting, the Committee urged the Paris Club to recognize the special situation of some highly indebted lower-middle income countries on a case-by-case basis.

c. Severely indebted low-income countries (SILICs)

Debt issues of low-income countries have been a major concern of the Committee since the mid-1980s. The Committee thus welcomed the following measures: (i) concessional official debt reschedulings by the Paris Club under Toronto Terms in favor of severely indebted low-income countries undertaking adjustment programs; (ii) cancellation by an increasing number of creditor countries of ODA debt owed by many low-income countries, particularly in Sub-Saharan Africa; (iii) utilization of IDA reflows for the benefit of IDA-only countries with outstanding IBRD debt; 1/ and (iv) activation by the World Bank of a \$100 million facility to assist eligible IDA-only countries to reduce their debt to commercial banks. 2/

1/ Through this so-called Fifth Dimension Program, the World Bank Group provides additional allocations to IDA-only countries that have outstanding IBRD debt, are current in their debt service to the Bank, and have an IDA-supported adjustment program.

2/ The IDA Debt Reduction Facility was established in FY90 with a grant of \$100 million from the Bank's net income to support operations to buy back or otherwise substantially reduce or eliminate the commercial bank debt of severely-indebted IDA-only countries which are adjusting and have comprehensive plans to deal with their debt problems.

In the Spring of 1990, the Ministers expressed concern that, despite efforts by the Paris Club and other measures, a number of countries had uncertain prospects for an early return to external viability. The Committee requested that the World Bank and the IMF undertake an evaluation of the benefits of debt relief taken so far in favor of the SILICs.

In the Fall of 1990, the Ministers recognized that there was still a long way to go. The Committee, therefore, welcomed the debt relief that creditor countries had provided through (i) concessional official debt rescheduling, and (ii) ODA debt cancellation. It also welcomed the utilization of IDA reflows for the benefit of IDA-only countries with outstanding IBRD debt. The Ministers encouraged the early use of the resources of the World Bank's facility to assist eligible IDA-only countries to reduce debt to commercial banks. The Committee noted the request made to the Paris Club (in the G-7 Houston Declaration) to review the implementation of existing options that apply to the poorest countries. The Committee called for early consideration, through the Paris Club, of the proposals made by France, the Netherlands, and the United Kingdom (the Trinidad Terms), for further bilateral official debt relief. The Committee concluded that creditor countries' new commitments of assistance to low-income countries should be provided on highly concessional terms.

In the Spring of 1991, the Committee expressed concern about the application of the Toronto Terms and encouraged the Paris Club creditors to complete by mid-1991 their review of the implementation of the existing options - and their consideration of additional debt relief measures.

In its Fall 1991 meeting in Bangkok, the Committee welcomed the agreement at the G-7 London Summit concerning the need for additional debt relief going well beyond the relief already granted under the Toronto Terms. The Committee called on the Paris Club to continue discussions on how best to promptly implement these measures.

In the Committee's Spring 1992 meeting, President Preston reported the recent agreement by Paris Club creditors to provide enhanced debt relief (so-called "enhanced Toronto terms") going beyond the Toronto terms. The Committee welcomed the consensus reached by the Paris Club on a new treatment (including 50 per cent debt relief) for the poorest and most heavily-indebted countries. The Ministers noted that the Paris Club agreed, under certain conditions, to consider the stock of debt after a period of three to four years. The Committee concluded that debt reduction, while necessary in certain cases, meant that certain creditors would be unable to advance new loans to the countries concerned.

In its Fall 1992 meeting, the Committee welcomed the enhanced debt relief extended to the poorest countries by the Paris Club and invited it to maintain its continuing review of the debt strategy.

In the Committee's Spring 1993 meeting, President Preston reported that the IDA Debt Reduction Facility had seen a sharp increase 1/ in operations which had been co-financed with a number of bilateral donors; he would therefore recommend to the Board of EDs to replenish this Facility at the end of FY93. The President, in his report, also noted agreements made under Paris Club auspices, involving "enhanced Toronto terms".

In the Fall 1993 meeting, President Preston reported that "to date, a total of almost \$623 million of principal in external commercial debt has been extinguished through the IDA Debt Reduction Facility; the Bank's Board has approved an extension of the Facility through July 31, 1995". He also noted the activities of the Paris Club, under the "enhanced Toronto terms".

In the Committee's Spring 1994 meeting, President Preston reported the progress in the debt reduction operations supported by the IDA Debt Reduction Facility and the Paris Club rescheduling agreements, under "enhanced Toronto terms".

At the Committees' Fall 1994 meeting in Madrid, President Preston reported the progress made in the operations supported by the World Bank's Debt Reduction Facility and the Fifth Dimension Program. The President also noted that activity in the Paris Club had been brisker in 1994 than in 1993 due to the reschedulings that became necessary following the devaluation of the CFA franc and the adoption of the comprehensive adjustment programs supported by the IMF. Mr. Preston added that following the G-7 Summit in Naples in July 1994, the Paris Club discussed ways to give effect to the Summit declaration on reducing the stock of debt for those SILICs facing special circumstances. The Committee favored a reduction in the stock of debt where appropriate and an increase in concessionality for the poorest countries facing special difficulties.

In the Committee's Spring 1995 meeting, President Preston reported that the World Bank's efforts to reduce the debt burden of severely indebted poor countries included: "(i) support for policy reform; (ii) IDA credits; (iii) extraordinary IDA allocations for countries engaged in debt workouts; (iv) Fifth Dimension allocations; (v) funding from the Debt Reduction Facility to reduce commercial debt; (vi) technical assistance for debt management; and stressed that "the Bank will continue its efforts". Mr. Preston also noted that the new "Naples terms" agreed in December 1994 would provide, for most such countries, for a 67% reduction of debt and service in net present value terms, instead of the 50% available under "London terms".
2/ The Committee welcomed this agreement in the Paris Club to implement

1/ It is noted that between FY89-FY92, some SDR 400 million were allocated to the IDA Debt Reduction Facility for IDA-only countries.

2/ Under the new "Naples Terms" when those SILICs have established a good track record, the Paris Club will be prepared to reschedule on concessional terms the entire stock of eligible debt, rather than just payments falling due.

"Naples Terms" for the poorest and most heavily-indebted countries, and called for them to be applied flexibly.

d. Indebted countries which have not restructured their external debt obligations

At both of its meetings in 1990, the Committee drew attention to the needs of those countries which while pursuing sound macroeconomic policies had avoided the rescheduling of their external debt. The Ministers stressed that the efforts of those countries to maintain normal debtor/creditor financial relations should be encouraged and supported. In the Fall of 1991, the Committee recognized the need to continue financial support, with the help of advice from the World Bank and the IMF, for those countries. In its Spring and Fall 1992 meetings, while acknowledging that those adjusting countries which had avoided debt rescheduling generally maintained their access to markets, the Committee reiterated its view that these countries' efforts deserve continuing support.

e. Recent developments in the multilateral debt issues of developing countries

In the Committee's Fall 1994 meeting in Madrid, Chancellor Clarke (U.K.) commented (as he had done at the recent meeting of Commonwealth Financial Ministers in Malta) on the need to tackle multilateral debt as a priority. He proposed that the World Bank and the Regional Development Banks look at ways they might be further able to be helpful. The Committee recognized the special needs and problems of countries emerging from economic and political disruption and also of the poorest, most indebted countries, and requested that the World Bank's Board of Executive Directors examine proposals relevant to these areas.

In the Committee's Spring 1995 meeting, President Preston reported that "... the Member countries' IBRD debt is being rapidly reduced and now accounts for only about 3.4% of the total outstanding debt of the 33 most severely indebted low-income countries; with the provision of new financing solely on IDA terms and support from the Fifth Dimension Program, the overhang of IBRD debt will be rapidly reduced; within six years, IBRD debt will be virtually eliminated for nearly all of the 19 IDA-only countries that today have IBRD debt." The President added that the Bank Board had discussed a paper prepared jointly by the World Bank and the IMF staff in March and asked that the World Bank staff explore alternative scenarios, including possible modification to existing instrumentalities. The Ministers recognized that some of the poorest and most heavily-indebted countries still have a large burden of debt owed to the multilateral institutions, in particular the World Bank and the IMF. The Committee invited the Boards of Executive Directors of the World Bank and the IMF to continue study of this subject, so that the Ministers can review it again as part of the October 1995 meeting agenda.

9. STRUCTURAL ADJUSTMENT EXPERIENCE AND FINANCING NEEDS
OF DEVELOPING AND TRANSITION COUNTRIES

The Committee has continued to consider structural adjustment issues of developing countries during this period. Although the focus of their review has been mainly on the problems of the Sub-Saharan African countries, the scope of the review has been extended to the issues of transitional countries, as summarized below:

a. Developing Countries The Committee has examined adjustment issues and financing problems of developing countries since the beginning of the 1980s. The Committee at its Spring 1980 meeting gave its political support to the World Bank's proposal for increased lending for structural adjustment to those developing countries facing severe balance of payments deficits. This brought a new pattern to the World Bank's lending, which in the past was seen mainly as project-oriented lending. -

In the early 1980s, the Committee emphasized that successful adjustment efforts were essential for significantly improving growth rates in developing countries. At meetings in the mid-1980s, the Committee supported the World Bank's efforts to considerably expand its lending to severely indebted countries for structural and sectoral reforms. The priorities during this time period were that those countries had to adjust to the adverse external economic environment in order to move towards sustained economic growth; but the poor and the other most vulnerable groups in society should be protected against adverse effects of adjustment. At the end of the last decade, in particular at the Spring and Fall 1989 meetings, the Committee, focusing mainly on the design and implementation of those programs, initiated its first global review of experience with growth-oriented structural adjustment programs assisted by the World Bank and the IMF. The Committee concluded that the essential ingredients in the design and implementation of successful structural adjustment programs were: (i) strong political commitment by developing countries to sound macroeconomic policies; (ii) broad public support for programs; (iii) integration of poverty reduction objectives, environmental considerations, and contingency planning in the design of programs; (iv) strengthening of administrative and institutional capacity; (v) adequate and timely financing of support programs. The Committee then asked the World Bank and the IMF to keep under review the results of structural adjustment programs undertaken by developing countries. 1/

In its Spring 1990 meeting, the Committee concentrated on long-term perspectives for development in Sub-Saharan Africa as an agenda item. 2/ This topic was outlined in a "Long-Term Perspectives Study" (1989) prepared in close collaboration with African policymakers, donors, and other international organizations. This study was considered the first attempt to

1/ Development Committee Fifteenth Annual Report (July 1988-June 1989) and Press Communique (April 4, 1989).

2/ Development Committee: Sixteenth Annual Report, July 1989-June 1990.

arrive at a consensus on what needs to be done in Africa to achieve sustainable growth of 4-5% annually over the next 20 years. The authors stressed the importance of open markets, trade liberalizations, competitive environment, private sector and realistic exchange rates. The study also addressed the issues of governance, transparency and accountability. The Committee endorsed the approach of the strategic agenda as outlined in the World Bank's report "Sub-Saharan Africa: From Crisis to Sustained Growth" and agreed that the following are key elements for progress in development:

- (i) sustained growth and development require firm commitment and good governance on the part of the concerned governments of the Sub-Saharan African countries as they have primary responsibility in the design and implementation of their development strategies;
- (ii) the need for adequate, effective and well-coordinated funding from donors and multilateral institutions, noting that large ODA flows to those countries would continue to be required in the 1990s;
- (iii) resources should be channeled more selectively to countries implementing adjustment programs, thereby maximizing the effectiveness of external assistance.

The Committee emphasized the complementary roles of the World Bank and the IMF in the long-term development process of Sub-Saharan Africa, and requested that it be kept informed of the progress in implementing the long-term strategic agenda. The Committee welcomed this positive initiative by the Government of the Netherlands to convene an international conference on Sub-Saharan Africa in Maastricht in July 1990.

The Ministers welcomed the agreement, in principle, of donors for an extension of the Special Program of Assistance (SPA) beyond 1990 ^{1/}. The Committee urged the donors to indicate their levels of adjustment assistance for SPA-2 (covering 1991-93) at the donor session to be held in the Fall of 1990. The Ministers also suggested that donors continue considering steps to untie their commitments in the framework of the SPA and to further harmonize procurement and disbursement procedures.

Consequently, the donors pledged about \$7.0 billion in cofinancing and coordinated financing to help cover the external gaps for 27 current eligible Sub-Saharan African countries for SPA-2. Furthermore, at the donors' meeting in October 1992, donors agreed that SPA had been an effective program and expressed their intention to support the third phase of it, covering 1994-96.

^{1/} The Special Program of Assistance (SPA) was established in 1987; under the leadership of the World Bank 17 donors have been supporting the SPA for low-income debt-distressed countries implementing adjustment programs. SPA is intended to mobilize quick-disbursing balance of payments support.

At the Committee's Fall 1994 meeting in Madrid, President Preston reported that the third phase of SPA had got off to a strong start in 1994; the SPA donors had pledged \$1.1 billion in additional assistance over the \$5.5 billion initially pledged for SPA-3.

At the Spring 1995 meeting, President Preston informed the Ministers that under the third phase of the SPA which began in 1994, 17 donors pledged \$6.7 billion in balance-of-payments support to date; resources will, however extremely tight, and donors will need to be even more selective in allocating resources.

b. Countries-in-transition The Ministers were also interested in the adjustment and reform activities of the countries of Eastern and Central Europe, and the newly established republics of the Former Soviet Union (FSU) which started to join the institutions in the 1990s. Most of these countries were moving from centrally-planned economies to market-based economies in a volatile political and institutional framework. Although they have abundant human capital, compared to the other developing countries, they have been facing obsolete and deteriorating physical capital, as noted. Moreover, in the early years of the 1990s, their output was declining significantly while inflation had remained high. ^{1/} The emerging concern was the consequences of their financial requirements on the aggregate resource flows to developing countries which were traditionally recipients of such flows.

In the Spring 1990 meeting, the Ministers stressed that financial support for reforms in Eastern Europe calls for adequate resources so that their requirements can be met while also allowing increased financial flows to other developing countries. The Committee thus welcomed the decision to create the European Bank for Reconstruction and Development (EBRD) whose mandate would be to assist these countries with economic and political reforms and to facilitate their transition to market economies. The Committee called on the World Bank Group and the IMF to work with the EBRD in fulfilling these objectives.

At the Fall 1991 meeting in Bangkok, President Preston reported that the requirements of the Eastern and Central European countries have placed heavy demands on available resources and expertise, including those of the World Bank; but current lending levels were readily manageable within the capital availabilities of the IBRD. The Ministers encouraged industrial countries to provide adequate support for strong adjustment efforts by the countries-in-transition without diverting ODA from traditional recipients.

In the Spring 1992 meeting, the Ministers noted recent historic changes and welcomed the states of the FSU into the Bretton Woods Institutions. The Committee supported the IMF's current and proposed operations in this area.

^{1/} The World Bank "The Transition in Central and Eastern Europe and Former Soviet Union", K. Dervis, M. Selowsky, C. Wallich, 1994.

The Ministers received renewed assurances from President Preston that IBRD lending to these new member countries could be supplied without jeopardizing the borrowing requirements of the traditional recipients. The Committee called on donor countries to provide additional funds to these countries without diverting resources from other traditional recipients.

In the Fall 1992 meeting, President Preston reported a lending program of about \$2.5 billion was envisioned for FY92; and the Bank's first loan to the Russian Federation 1/ had been approved by the Board, and the Bank's aggregate lending program in the new nations could grow to a level of \$4-5 billion per annum by FY95. The President also pointed out that there were many risks on the road ahead; these included the danger of a weakening of the political commitment to reform; inadequate implementation capacity; and shortfalls in the availability of external financing.

During the Spring 1993 meeting, President Preston, in his report, warned the Ministers that some of the risks that he had mentioned at the last meeting were materializing; the Bank however was deploying its resources so as to maintain maximum flexibility.

In the Committee's Fall 1993 meeting, President Preston reported that some positive developments had emerged in the region. The Russian Federation was in the process of implementing a stabilization program 2/ to reduce inflation; its privatization program remained on a fast track; the Bank's level of commitments to the Russian Federation reached about \$1.4 billion in FY93; the overall lending to the countries of the FSU and Eastern Europe increased from \$1.8 billion in FY92 to \$3.3 billion in FY93.

In the Committee's Spring 1994 meeting, President Preston reported that the World Bank continued to expand its activities in Central and Eastern Europe and the FSU; 3/ the level of commitments to these countries had reached \$12.1 billion. A Vice Presidency for Europe and Central Asia, was set up to assist new member countries of the FSU and Central and Eastern Europe in their transition to market-based economies.

At the Committee's Fall 1994 meeting in Madrid, President Preston reported that the data for FY93 showed some important positive trends, although there was still a large variability in economic performance in Eastern Europe and the FSU; during FY94, the World Bank expanded its operations in these countries. Total approved operations amounted to \$3.6 billion, a \$0.3 billion increase over FY93. The number of operations approved increased from 26 in FY93 to 41 in FY94, while country coverage increased from 13 to 21. The projects approved for the Russian Federation amounted to

1/ The Russian Federation joined the Bank in June 1992.

2/ This has been supported by the new Systemic Transformation Facility (STF) of the IMF.

3/ As of March 15, 1994, the World Bank had approved at least one lending operation in 11 out of 15 countries of the FSU.

\$1.5 billion. The Bank further intensified its environmental work in the region.

In the Spring 1995 meeting, President Preston reported that economic performance in the transition countries had become more differentiated, with the early and strong reformers showing signs of sustained growth; 1/ in particular, performance in the countries of the FSU remained weak. The Ministers noted that the region was still faced with significant challenges.

c. Low-Income Countries as a whole In its Fall 1993 meeting, the Committee focussed on the adjustment experiences and implications for financing needs of low-income countries as a whole. 2/ The Ministers acknowledged that many low-income countries have found it hard to make the economic adjustment necessary to achieve economic and social progress. This was due to: poor initial conditions; lack of domestic savings; lack of adequate institutional and administrative capacity; inappropriate policies which take time to correct; and an unfavorable external environment. Consequently, progress in most directions has been slower than among the middle-income countries. Preliminary evidence suggests that countries which sustain strong adjustment policies do better than the rest. But even there, financial-sector and public-enterprise reforms have lagged behind, and private investment has responded only with a considerable lag. The Ministers recognized that improvements in many low-income countries have not yet led to a sustained increase in income per capita. As a result, success has been uneven in reducing poverty and protecting the environment. The Committee therefore welcomed the broadening political consensus in favor of adjustment strategies which stress stabilization and market-friendly measures, combined with human resource development and poverty alleviation. The Ministers concluded that, if implemented consistently and backed up by structural reforms, such strategies would succeed over time. The Committee urged countries which have not yet embarked on the adjustment process to formulate and implement their own programs accordingly. The Ministers stressed that the design of adjustment programs and external assistance need to reflect the socio-political background and institutional capacity of the countries concerned. The Committee concluded that the best programs are those which are home grown. The Committee called on the World Bank and the IMF to do more to address the impact of macro-economic and adjustment measures and their sequencing on poverty, employment, investment and the environment.

In his paper, Chairman Rudolf Hommes stressed that the best solution for African and other low-income countries is to seek faster rates of

1/ No data about lending to this region is given in the President's report.

2/ Development Committee Pamphlet No. 32: (i) "Joint issues Paper: Adjustment Experiences in Low-Income Countries and Implications of Financing Needs", pp.35-59; and (ii) "Improving the Effectiveness of Financial Assistance for Policy Reform", Tony Killick, Overseas Development Institute, pp.103-112, Washington, DC September 1993.

growth. He pointed out that there are interesting lessons to be learned from different regions. He thought the East Asian Experience study ^{1/} was a good example and he put the question somewhat melodramatically: "Why not an Asian Miracle in Africa?". The Committee agreed with the view of the Chairman (shared by many Ministers) that some of the lessons of the East-Asian experience may be relevant to today's low-income countries, particularly those related to macro-economic policy, export orientation, human resource development and the training of a professional civil service. The Committee concluded that: (a) low-income countries, in many cases, will need to supplement domestic savings with foreign investment, substantial and timely concessional financial support, together with necessary and appropriate relief of bilateral debt. To sustain the required levels of external support and investment, these countries will have to maintain their commitment to economic reform, poverty alleviation, environmental soundness, public participation, good governance; and (b) donors should focus concessional assistance on the low-income adjusting countries; donors should therefore complete ratification of IDA-10.

Mr. Camdessus, the Fund MD, in his opening statement stressed the need for the continued funding of the ESAF-- on an urgent basis and emphasized that "... Without an ESAF successor, the Fund simply would not be able to perform the role expected of it in the poorest countries, in many of which the ratios of debt to exports approached or exceeded 400 percent. Moreover, an ESAF successor would also provide a guarantee to taxpayers in the donor community that their governments' official development assistance was a cost-effective as possible..."

The Committee concluded that donors should agree to the broadest possible spectrum of contributors to the ESAF successor and make significant bilateral contributions to the SPA.

d. Social Security Reforms and Social Safety Nets in Reforming and Transforming Economies At its Fall 1993 meeting, the Committee examined the continued need for social security support, both to meet life hazards and to help those hurt by necessary adjustment measures in developing countries. ^{2/} The Ministers recognized that many existing insurance structures have created unsustainable burdens on the government budget and the competitiveness of the formal sector at the same time while failing to protect important groups of the population. The Committee concluded that in many developing countries, including economies in transition, a system combining ele-

^{1/} "The East Asian Miracle", A World Bank Policy Research Report, (Oxford University Press), 1993

^{2/} Development Committee Pamphlet No.32, "Social Security Reforms and Social Safety Nets", joint issues paper, pp.35-58; "Reforming Social Security and Social Safety Net Programs in Developing Countries". Gary S. Fields and Olivia S. Mitchell, pp.113-120; "Social Security and Social Safety Nets in Developing Countries", Colin Gillion, pp.121-132; Washington, DC, September 1993.

ments of public and private provision will be appropriate, but the pattern must vary from case to case. The Committee called on the international institutions to provide technical assistance and policy advice.

The Committee, in addition to these social security systems, acknowledged that countries engaged in adjustment or systemic transformation require well designed extra social safety nets. The Ministers stressed that these safety nets should be integrated into the poverty reduction strategies of each country and involve several alternative methods--such as labor intensive public work, nutrition programs, targeted food subsidies, retraining of dismissed workers, and "social funds". Governments, however, should avoid creating new long-term entitlements which might build up future budgetary problems. The Committee concluded that the appropriate mix of measures depends on data availability, administrative capacity and financial resources. In such programs, the poorest among them may require continued technical and financial support from the World Bank and from donors. The Committee welcomed the constructive part played by the World Bank and the IMF in supporting social security system reforms and establishing and financing safety nets as part of their adjustment lending.

At the Committee's Spring 1995 meeting, President Preston reported that in the context of the Bank's poverty reduction strategy, targeting and safety nets were essential. The Ministers noted that in FY94 approximately three-quarters of the World Bank's adjustment operations were focussed on poverty reduction, and about one-quarter of the World Bank's investment lending supported specific, targeted programs aimed at poverty reduction. Experience has shown that the issues confronted by the adjusting developing and transition countries (especially those in Sub-Saharan Africa, 1/ Eastern Europe and Central Asia) will continue to be a particular source of concern for the Committee.

1/ World Bank Adjustment in Africa: "Reforms, Results and the Road Ahead", Washington, DC (Oxford University Press) 1994.

10. ENVIRONMENT AND DEVELOPMENT

The role played by the Committee in this issue is outlined in the following three areas:

a. Integrating environmental consideration into the World Bank's operations

The Committee, taking into account the so-called "Brundtland Report" of the World Commission on Environment and Development ("Our Common Future"), considered this topic for the first time in the Spring of 1988. ^{1/} The emerging consensus among the Ministers was that there were close linkages between growth, development and environmental considerations, and between environmental degradation and poverty. Another important development took place in the Committee's Fall 1988 meeting in Berlin. The Committee agreed that the World Bank should review the environmental aspects of its operations and prepare an annual report.

In the Spring of 1990, the Committee urged the World Bank to take steps to strengthen and expand its environmental programs and thus assist developing countries in contributing to the achievement of the emerging objective of global environmental protection.

In the Fall of 1990, the World Bank's first "Annual Report on the Environment", requested by the Committee, was published. ^{2/} The Committee stressed the importance of integrating environmental concerns into the World Bank's operations as well as of introducing new initiatives in the following order: (i) to provide greater protection for tropical forests, and (ii) to promote energy efficiency and conservation in all countries. The Committee asked the World Bank to increase its cooperation with governments making efforts in these two areas and to include an assessment of progress achieved in its second Annual Report on the Environment.

In the Committee's Spring 1991 meeting, President Conable reported to the Ministers that since the last meeting the World Bank had begun to participate in the preparatory work for the United Nations Conference on Environment and Development (UNCED), to be held in Rio de Janeiro in June 1992, as well as to prepare the 1992 World Development Report (WDR), focusing on environment and development. The Ministers welcomed this progress. The Committee also recognized the recent initiatives taken in the IMF toward greater awareness of environmental concerns in its work.

At the Committee's Bangkok meeting in October 1991, the Ministers agreed that actions to protect the environment were essential to both of the

^{1/} Development Committee Pamphlet No. 17, "Environment and Development", Washington, DC 1988.

^{2/} The World Bank "The World Bank and the Environment: First Annual Report, Fiscal 1990", Washington, DC, 1990.

priority development objectives of the 1990s -- reduction of poverty and sustainable growth.

In the Committee's Spring 1992 meeting, President Preston reported on the preparatory work for the UNCED Rio Conference. He specifically mentioned IDA's role in the poorest countries and preparation of "environmental action plans for all IDA recipients". He emphasized that the design of IDA's projects have reflected the costs of pollution and environmental degradation as well as the benefits of environmental clean-up and protection; and IDA financing specifically targeted to support environmental objectives has grown substantially. The Ministers welcomed the World Bank's account of its environmental activities and supported its efforts to assist borrowers and donors to design and implement environmentally acceptable programs, including timely production of environmental impact assessments and environment action plans. The Committee also welcomed the related activities of the IMF in the area of environment.

In the Committee's Fall 1992 meeting, President Preston reported the outcome and recommendations of the UNCED Rio Conference. He suggested that IDA Deputies again face the question of an "Earth Increment" once the base level of IDA-10 was set.

In the Committee's Spring 1993 meeting, President Preston reported that the establishment of a new "Vice Presidency for Environmentally Sustainable Development" had facilitated the environmental work of the World Bank. He also acknowledged considerable improvement in the completion of national environmental action plans by the IDA countries; "Regional environmental planning efforts" were also under way; related work in support of "sector-specific strategies" was undertaken in the areas of "biodiversity" and "coastal zone guidelines"; increased priority was being given to assist borrowers strengthen local capacity to conduct environmental assessments and implement mitigation measures. Technical assistance was provided to address potentially social impacts of IBRD and IDA-supported projects, particularly related to resettlement issues; environmental economics research in support of lending operations was expanded. Accordingly, the number of World Bank loans and credits promoting environmental stewardship continued to increase. The Ministers welcomed the progress made.

In the Committee's Fall 1993 meeting, President Preston reported that the World Bank had accelerated activities designed to help its member countries meet their environmental challenges; the number of Bank/IDA loans and

credits promoting environmental stewardship rose substantially in 1992; 1/ in addition, efforts were strengthened to incorporate environmental considerations into all aspects of the Bank's activities. 2/

In its Spring 1994 meeting, the Committee considered the topic of population and development. It concluded that any integrated population policy for developing countries must recognize the links between the following key priorities: economic growth, control of population, poverty reduction, health investment in human resources and environmental degradation.

The Committee, at its Madrid meeting in Fall 1994, welcomed the World Bank's publication "Learning from the Past, Embracing the Future". "Protecting the environment" was listed as one of the five major development challenges. The Ministers acknowledged the existence of more than 100 current World Bank-supported environmental projects in 50 borrower countries. This represented a commitment of \$5 billion and total investment of more than \$13 billion. Seventy-seven countries, in particular low-income countries, prepared national environmental action plans. In the World Bank Group, all projects are now subject to stringent environmental standards; future Bank environmental initiatives will be more closely guided by the social and ecological dimensions of development in a way that these initiatives are integrated into the country assistance strategies.

In the Committee's Spring 1995 meeting, Mr. G.S. Kaji, Acting President of the Bank, informed the Ministers that the World Bank had become, de facto, the world's largest environmental agency, with its lending for environmental protection increasing tenfold over the last five years -- reaching almost \$2.5 billion in 1994 alone.

b. Contributing to the outcome of the UN Conference on Environment and Development (Rio de Janeiro, June 1992)

In its Spring 1992 meeting, about five weeks away from the UN Earth Summit meeting in Rio de Janeiro, the Committee reviewed as a major agenda

1/ Total lending for free-standing environmental projects in FY93 reached a record \$2.0 billion for 24 projects. An additional 30 projects approved in FY93 have environmental components. Loans or credits were approved by the World Bank's Board of Executive Directors for 7 projects involving approximately \$1.3 billion for pollution control, 11 projects totaling \$526 million for natural resource management and 6 projects involving \$173 million for environmental institution-building.

2/ The full range of the Bank's efforts in this regard was detailed in its report on The World Bank and the Environment: FY93, which discusses enhanced efforts to assist countries in environmental management, to assess and mitigate adverse impacts from the World Bank-financed projects, to build on the positive synergies between development and the environment, to address global environmental challenges, and to build up the Bank's human resources and institutional capacity in dealing with environmental issues.

item the interaction between environment and development policies and the preparations for the UNCED. The Ministers recognized that economic growth and human development can be consistent with improving environmental conditions, but that this requires significant policy, program and institutional changes in dealing with national and global environmental problems. 1/ At the national level, the Committee agreed that developing countries would require a threefold strategy: (i) mutually-reinforcing roles of sustainable development and environment must be vigorously explored through sound macro-economic policies which promote growth and reduce poverty. The fight against poverty will help to preserve the environment; (ii) any such policies must be supplemented by an incentive structure to discourage overuse of natural resources; developing countries need external support for technology transfer and for capacity-building. The top sectoral priorities for direct national action are clean water and sanitation, air quality, soil, water and agricultural productivity, and natural habitats; (iii) people and institutions should be motivated to adopt less damaging behavior by bringing environmental considerations into their decisions. This should be done, wherever possible, by use of market-based instruments which have the advantage of reducing environmental damage in the most cost-effective way.

As Mr. Maurice Strong, Secretary-General of the UNCED, told the Development Committee, the most important unresolved issue after the final UNCED Preparatory Committee meeting was the question of financial resources for implementing Agenda 21. This included 115 action programs in the areas of development and environment. 2/

The Ministers recognized that many developing countries will need increased outside help to tackle national environmental problems. The Committee agreed that official support should be provided through existing development institutions rather than by setting up a separate so-called "Green Fund". The Committee concluded that existing lenders and donors should assist through increased aid, some of it on concessional terms; World Bank-led Consultative Groups and UNDP-led Round Tables should help coordinate such aid and integrate country strategies with environmental action plans. The Ministers also agreed that consideration should be given to a special "Earth Increment" to the IDA-10 replenishment.

At the global level, the Ministers recognized that in the absence of conclusive scientific proof, a precautionary strategy to address the risk of "climate change" and to preserve "biodiversity" requires a broad international consensus. The Committee concluded that the Global Environment Facility (GEF) should play a leading role as the multilateral funding mechanism; it should provide new and additional financial resources; its universal membership should be encouraged and governance be restructured.

1/ The World Bank: 1992 World Development Report.

2/ Development Committee pamphlet No.32, "Statement on Environment and Development by Maurice Strong" pp.25-29, Washington, DC 1992.

The Committee asked for a progress report for the Fall 1992 meeting on the outcome of the Rio Conference and the follow-up action planned.

In the Committee's Fall 1992 meeting, President Preston reported that the UNCED, in its Rio de Janeiro meeting in June 1992, had supported a number of initiatives endorsed by the Development Committee in its April 1992 meeting. These included: (i) UNCED agreed that the required financing in support of both national environmental action plans and global environmental objectives be provided through existing institutions rather than new funding mechanisms; (ii) UNCED supported the work of the GEF and agreed that, adequately restructured, the GEF is the most appropriate mechanism for meeting the incremental costs of several global environmental activities; (iii) UNCED asked that special consideration be given to the need for a substantial Tenth Replenishment of IDA to a) enable it to help recipients meet their national environmental objectives and b) recognize the desirability of an "earth increment" to IDA-10; (iv) support was also given for existing aid consortia arrangements, such as World Bank-led consultative groups and UNDP-led Round Tables. The Committee welcomed the broad consensus reached in the UNCED Conference. ^{1/} The Ministers recognized the ongoing financing needs associated with UNCED's Agenda 21. They also acknowledged UNCED's request for additional funding to be channeled through existing institutions, including the GEF which will be restructured on lines to be agreed upon by the GEF participants. The Committee urged the World Bank to play a full role in carrying forward the relevant UNCED recommendations in collaboration with other agencies in the UN system and the regional development banks, and to report progress to the Committee at its Fall 1993 meeting.

In the Committee's Spring 1993 meeting, President Preston reported that the World Bank was making significant contributions to the follow-up work to UNCED in support of recommendations of Agenda 21; the IBRD and IDA continued to increase cooperation with NGOs; under the GEF, a \$5 million grant window for NGOs, administered by UNDP, was established which would support NGO initiatives in "biodiversity". It was noted that the World Bank would play an active role in the newly-formed "Interagency Committee on Sustainable Development" of the UN's Administrative Committee on Coordination" and would collaborate with the new Department for Policy Coordination and Sustainable Development in the UN Secretariat.

In the Committee's Fall 1993 meeting, President Preston reported that the World Bank played a positive role in the new "Commission on Sustainable Development" which held its first meeting in New York in June 1993. The Bank was also active in the establishment of the Interagency Committee on Sustainable Development, and would continue to play an important role as this group sought to add efficiency and effectiveness within the UN system in the follow-up to UNCED.

^{1/} Ibid, "Outcome of the United Nations Conference on Environment and Development", pp.101-106

c. Creating the Global Environment Facility (GEF) 1/

At the end of the last decade, there was another emerging consensus among the Ministers that integrating environment considerations into the development process could entail heavy costs for developing countries. This consensus led to the creation of the GEF and to its acceptance by UNCED.

In its Fall 1989 meeting, in agreement with German Minister J. Warnke's proposal, the Committee requested that the World Bank prepare a study of the "mechanisms and financial requirements" that might be needed to address the environmental challenges of the developing countries. Minister P. Bérégovoy of France proposed the establishment of a "new facility" within the World Bank, funded by voluntary contributions.

The World Bank prepared a draft report on "Funding for Global Environment" and discussed it at a meeting with donors, the UNEP and the UNDP in Paris in March 1990.

In its Spring 1990 meeting, the Committee considered a World Bank report on funding global environmental protection and agreed that the Bank should be actively involved. The Ministers also agreed that there should be continued efforts to develop proposals for a pilot mechanism. The Committee urged the World Bank to proceed with this work expeditiously in collaboration with UNEP and UNDP and in consultation with other interested parties.

In its Fall 1990 meeting, the Committee welcomed the progress made toward the establishment of a program, including a funding mechanism, to address global environmental problems and urged the donors and the World Bank, working in collaboration with UNEP and UNDP, to complete their work before the next Development Committee meeting.

In its Spring 1991 meeting, President B. Conable reported that agreement had been reached at a meeting of Participants, held in Paris in November 1990 on the following key features of the GEF: (i) the GEF was conceived as a three-year pilot program under which grants or concessional loans would be provided to developing countries to assist them address environmental problems that transcend national boundaries; (ii) the GEF would support country actions aimed at limiting "emissions of greenhouse gases", "protecting international waters", "preserving biological diversity", and "protecting the earth's ozone layer"; (iii) the GEF would be carried out under a tripartite arrangement between the UNDP, the UNEP, and the World Bank; (iv) commitments over the three-year period were expected to total between \$1 billion and \$1.5 billion and would be administered under a trust

1/ The GEF is a concessional funding mechanism. Its purpose is to help developing countries meet incremental costs of projects designed to protect global environment. It is administered jointly by the UNDP, UNEP and the World Bank.

fund established by the World Bank. The Committee welcomed the establishment of the GEF.

In the Spring of 1992 (five weeks before the UNCED meeting), the Committee discussed "Environment and Development" and reached the following consensus: (i) the GEF should play a leading role as the multilateral funding mechanism; and (ii) it should provide new and additional financial resources through a mix of grant and concessional funding. The Ministers agreed that the GEF should encourage universal membership. The Committee asked the GEF Participants to reach early decisions on future coverage, governance and financing of the GEF.

In its Spring 1993 meeting, President Preston reported that the "Climate Change and Biodiversity Conventions" designated the GEF as the interim funding mechanism. Regarding the topic of replenishment and restructuring, he stressed that the GEF pilot phase would end late 1993, by which time resources originally contributed -- about \$1.3 billion -- would have been committed; the governments had already endorsed the objective of universal membership. The Committee agreed on the importance of a productive outcome at the forthcoming meeting of Participants which would deal with these issues by December 1993.

In the Committee's Fall 1993 meeting, President Preston reported that GEF was named as the interim funding mechanism of the Biodiversity and Climate Change Conventions. The core funds available to the first phase of the GEF had been fully committed. 1/ Replenishment discussions had proceeded in tandem with discussions about appropriate governance, voting, and implementation arrangements of the GEF. The replenishment process began at the Participants' meeting in Beijing, China in May 1993 along with discussion of the size and term of the second phase of the GEF.

In the Committee's Spring 1994 meeting, President Preston reported that the GEF Participants had agreed to replenish and restructure the GEF in their March 1994 meeting by pledging over \$2.0 billion, to be committed over a three-year period to a new GEF Trust Fund. The restructured GEF is to be jointly managed by a newly-created Executive Council, the Secretariat, and the Participants Assembly. 2/ In his opening remarks to the Committee, Mr. Preston stressed that the GEF agreement showed that the participating countries saw the GEF as an effective channel for implementing the global conventions signed at the UNCED Rio Conference; indeed the GEF agreement was

1/ The GEF's pilot phase commenced in early 1991. As of June 1993, \$727 million had been committed for 113 projects endorsed or under implementation by the three implementing agencies. This included \$468 million for 53 investment projects managed by the World Bank, \$242 million for 55 UNDP technical assistance and research projects, and \$17 million for five projects under the purview of UNEP.

2/ As noted by President Preston, in his President's report, the number of GEF Participants grew rapidly -- from the initial 24 to 89 in April 1994.

the first concrete follow-up to the UNCED Rio Conference, the President added.

In the Committee's Fall 1994 meeting, President Preston reported that the instrument establishing the restructured GEF had been adopted by the governing bodies of the UNDP, the UNEP and the World Bank. In addition to the original four areas of concern, environmental projects related to land degradation (primarily desertification and deforestation) would also be under consideration for funding insofar as it relates to one or more of the main focal areas. The World Bank report on "Learning from the Past, Embracing the Future" showed that the GEF, created in 1991, had already endorsed 115 projects representing about \$730 million and the World Bank would intensify its efforts as a GEF implementing agency to help developing countries, especially low-income countries, meet the incremental costs of global environmental protection.

Experience shows that the role of the World Bank and the GEF in contributing toward the efforts of developing countries to achieve environmentally sustainable development will be key issues for the Committee to follow up closely and consistently.

11. POPULATION AND DEVELOPMENT

On the basis of a joint issues paper and three supplementary papers presented in its Spring 1994 meeting before the International Conference on Population and Development (ICPD), in Cairo in September 1994, the Committee considered "population and migration", as a main agenda item. 1/ Without prejudging the outcome of the UN Cairo Conference, this topic gave Ministers an opportunity to review some of the key issues to be raised in that Conference--in particular, their financial implications, as stressed by Dr. Nafis Sadik, Secretary General of the Cairo Conference, in her address to the Committee. 2/ The Ministers recognized that the total world population, which was almost 5.7 billion in 1994, would be 8.5 billion in 2025, and would probably double in less than 50 years according to UN projections. The major concern is that most of this increase will occur in developing countries 3/ with massive economic, social, political and environmental consequences.

As indicated in the paper presented by Dr. Sadik to the Committee, in 1992 somewhat less than \$1 billion was provided by international population assistance; less than 1.4% of ODA in recent years has been directed to population and related reproductive health programs. The UN Population Fund authorities hoped that this percentage be increased by the donor countries at least 4% of ODA, a level reached and sustained for over a decade by one donor country -- Norway. 4/ The resource needs of the action-oriented program (which include education of girls; reduction of infant, child and maternal mortality, and the provision of universal access for family planning and reproduction health) for the next 20 years, as projected by the UN, were based on the following formula: 20% of public-sector expenditure in all countries as well as 20% of international development assistance should be devoted to the social sector. 5/ The UN also hoped that the Cairo Conference would raise the level of commitment from all actors involved because in its entirety, the projected resource requirements of

1/ Development Committee Pamphlet No. 33, Joint Issues Paper: "Population in Developing Countries", Washington, D.C., April 26, 1994, pp. 29-52.

2/ Ibid. No. 33, "Population and Development: Investment in the Future", Dr. Nafis Sadik, UNFPA, pp. 125-140.

3/ In 1994, approximately one million or about one-sixth of the world population lives in poverty.

4/ UNFPA, 1993, "Population Growth and Economic Development: Report of the Meeting of Economists convened by the UN Population Fund, 28-29 September 1992, New York.

5/ This is known as the "20-20 solution" in the UN context.

national population programs would total \$13.2 billion in 2000, and \$17 billion in 2015. 1/

a. With regard to population policies, the Ministers concluded that: (i) depending on the stage of each country's demographic transition, population programs are becoming increasingly diverse; (ii) institutional arrangements for delivery of population services must pay full attention to the social and cultural traditions of each country, tailor programs to local conditions, and take full advantage of available non-governmental and private sector organizations; (iii) improved education and employment prospects, improved health, and increased income all tend to reduce the birth rate; (iv) all couples and individuals have the right to decide freely and responsibly on the number and spacing of their children; and (v) family planning is only one of the available instruments and, thus, needs to be seen in the broader context of changing social patterns and increase awareness of the role of women. 2/

b. On the topic of future population policy priorities, Ministers agreed on the three objectives: (i) to improve the primary school enrollment rate in low-income countries in order to achieve universal primary education; (ii) to improve access to family planning and related health services which, estimated by UNFPA, would require a doubling of investments by 2000; and (iii) to reduce maternal and child mortality in developing countries.

c. With regard to financing the resource requirements of these population objectives and specifying the roles of the actors, the Committee concluded that: (i) Since the resource requirements are affordable, many developing economies can meet the costs, which in some cases, are already covered by user fees. The poorest people, however, will require essential continued public support. Developing countries should therefore consider giving the agreed three objectives priority within total budgets. (ii) The Ministers hope that many individual bilateral donors will be able to improve the present average 1.25% share of existing aid budgets allocated to population programs, as well as their support for health and education. 3/ (iii) For multilateral agencies, the Ministers welcomed the increasing share

1/ As projected by the UN, a basic package of population and family planning program activities would cost \$10.2 billion in the year 2000 and \$13.8 billion in 2015. An expanded package of activities for reproductive health care would have a global cost of \$1.2 billion in 2000, rising to \$1.4 billion in 2015. A third package for the prevention of sexually transmitted diseases (including HIV infection) would cost an additional \$1.3 billion in 2000, and approximately \$1.5 billion in the year 2015.

2/ Development Committee Pamphlet No. 33 "The Indonesian Population Program, by the Government of Indonesia" pp. 109-124

3/ Ministers noted that bilateral and multilateral donors currently contribute about \$1 billion a year to population programs in developing countries.

of the World Bank's social sector programs ^{1/} (which have risen from 6% to 16% of total portfolio in the past five years) as well as the World Bank's readiness to respond rapidly to requests for more assistance in this field. The Committee recognized that although the World Bank is not the principal organization concerned with population, its policy dialogue and wider operations give it a unique opportunity to promote population policies. The Committee called on the World Bank, other donors, the other multilateral agencies such as UNFPA, and the borrowing governments to collaborate fully in operations and in mobilizing the institutional and financial resources needed; and to re-evaluate their efforts following the Cairo Conference.

The Ministers also discussed the related issue of international migration, its social, political and financial consequences for importing and exporting countries alike. ^{2/} The Committee, recognizing that while there is a need for policies and that relatively little is known about the nature of these issues, called for more policy-oriented research and closer collaboration on migration between the different international agencies concerned.

In the Committee's Fall 1994 meeting in Madrid, President Preston, reporting on the September 1994 UN Conference on Population and Development, informed the Members that the Cairo consensus was quite clear, and it was very much in line with the thrust of the Development Committee's discussion at its Spring 1994 meeting. In the Committee's communique the Ministers from the participating countries welcomed the outcome of the Cairo Conference on Population and Development; The Committee called on the World Bank and the participants of the Conference to play an active part in implementing the Program of Action approved by the Cairo Conference.

^{1/} The World Bank's annual average lending population, health and nutrition during the 4-year period FY90-93, was \$1.3 billion. Its investments in education amounted to \$1.9 billion in FY93. (They are increasingly being targeted on keeping girls in school) (Joint Issues Paper, p.44).

^{2/} Ibid., Pamphlet No. 33, "Migration and Trade: Challenges for the 1990s", by Philip L. Martin, pp. 97-108.

12. INTERNATIONAL TRADE AND THE IMPACT OF URUGUAY ROUND
ON THE DEVELOPING AND TRANSITION COUNTRIES

Since the beginning of the Uruguay Round, the Committee had put its political weight behind the efforts in the GATT to agree on a strengthened multilateral trading system which would promote trade liberalization by all countries. The central theme among Ministers was that an improvement in GATT benefits through the successful conclusion of the Round was essential. In many cases, this is more important than the ODA flow or debt relief in facilitating the sustainable growth and adjustment efforts of developing countries.

The Committee followed the Uruguay Round negotiations very closely in every meeting in the early 1990s, either as a progress report or as a main agenda item. The Committee invited the Director General of the GATT to all of its meetings and welcomed the benefit of briefings with him on current developments. The Ministers were also interested in the impact of emerging regional trading arrangements as well as maintenance of industrial countries' protectionist measures on the developing countries' economic prospects.

In its Spring 1990 meeting, the Committee asked the World Bank and the IMF, in close consultation with the GATT, to continue their study of the implications of regional trading arrangements. In the Fall of 1990, the Committee urged all countries to roll back protectionist measures and to refrain from introducing new ones.

In its Spring 1991 meeting, the Committee focussed again on this subject by reviewing the impact of industrial countries' policies on development. ^{1/} The Ministers agreed that all countries, and in particular industrial countries, have a special responsibility to pursue sound macro-economic, industrial, trade and agricultural policies in order to promote a more open multilateral trade and payments system and to remove trade and investment barriers. The Committee encouraged industrial countries to take steps to ensure greater transparency and awareness of the costs and distorting effects of trade restrictive measures in their countries. By welcoming the market-oriented reforms and the trade liberalization measures implemented by an increasing number of developing countries, the Committee encouraged them to continue integrating themselves into the multilateral trading system. The Committee urged the World Bank and the IMF, in cooperation with the GATT, to follow-up and continue to evaluate closely developments concerning trade, industrial and agricultural policies and their impact on the development prospects of the developing countries. Starting from this meeting, the Ministers began to express deep concern about the potentially serious negative impact that a failure in the Uruguay Round would have for

^{1/} Development Committee Pamphlet No. 27, "The Effect of Industrial Countries' Trade, Agricultural and Industrial Policies on Developing Countries", Washington, DC, April 30, 1991, pp.56-77.

the global economy. The Committee stressed that regional trading arrangements should be part of, rather than an alternative to, wider efforts at promoting multilateral trade liberalization based on the GATT's non-discriminatory principles.

In the Fall of 1991, in Bangkok, the Ministers acknowledged that economic reform in the developing countries should be complemented by improvements in the trade, energy, industrial and agricultural policies of the industrial countries. In order to stress the potential advantages for both parties, the Committee concluded that wider access to world markets is essential for the developing countries as well as benefiting producers and consumers in industrial countries. The Ministers impressed upon their colleagues at home the need for a comprehensive agreement. 1/

In the Spring 1992 meeting, the Committee conducted the first of their annual reviews of the interlinkages between policies of the industrial and developing countries. This time, the Ministers focussed mainly on trade questions with particular reference to the Uruguay Round. The joint issues paper prepared by the World Bank and the IMF provided information on the status of the Uruguay Round and the regional trading arrangements. 2/ In his statement, Mr. Arthur Dunkel (GATT), described trade as an "engine of economic growth" and pointed out that the total number of countries which have announced autonomous trade liberalization since the Uruguay Round was launched in 1986 reached 63. Fifty-one of these were developing or former centrally-planned economies. 3/ The Committee welcomed the significant efforts made by many developing countries in the trade area and encouraged industrial countries to accelerate the pace of their liberalization efforts. While recognizing the need to control potential damage to the environment, the Ministers agreed that such legitimate concerns should not be used to justify new or existing barriers to trade. The Committee called on the World Bank and the IMF to undertake and publish regular assessments of the impact of changes in world trade patterns on developing countries and to support these countries' efforts with appropriate financial and technical assistance as well as policy advice. The Ministers also encouraged other multilateral agencies and donors to provide financial support for the trade liberalization efforts of developing countries. The Ministers, for the first time at this meeting, touched upon the need for a preliminary assessment of the probable impact of the Uruguay Round on some countries, notably those which are net food importers or those whose existing preferential access would be eroded. The Committee urged the World Bank and the IMF to consider the case for transitional financial help to these countries. The

1/ Development Committee Pamphlet No. 28, "Statement by Arthur Dunkel, GATT", pp. 20-22.

2/ Development Committee Pamphlet No. 29, "Interlinkages Between the Policies of the Industrial and Developing Countries, Emphasizing Trade Aspects", Washington, DC, April 28, 1992, pp. 30-45.

3/ Ibid, Pamphlet No. 29 "Statement to the Interim and Development Committees" by Arthur Dunkel (GATT), pp.23-24.

Committee also concluded that regional trading arrangements should be outwardly-oriented, emphasize trade creation rather than trade diversion, and not slow down the process of greater multilateral liberalization. The Committee asked the World Bank and the IMF to provide a progress report on trade issues for their Fall 1992 meeting and, once the Uruguay Round was completed, to submit a final report on the implications of its outcome for the Bretton Woods institutions.

In the Fall of 1992, the Ministers reviewed the progress report ^{1/} and agreed that a much more open trading system would be beneficial worldwide, but is especially vital to the developing countries because of their growing need to increase earnings from trade. With regard to the regional trade arrangements, the Committee stressed that such arrangements should ensure trade opportunities for developing countries.

In the Spring of 1993, the Ministers emphasized that open world markets were essential for creating an environment attractive to foreign investors. They also recorded increasing concern about the continued delays and risk of breakdown in the Uruguay Round negotiations.

The Committee, in its Fall 1993 meeting, acknowledged the joint declaration made by Messrs. Camdessus, Preston and Sutherland concerning the Uruguay Round negotiations. The basic message of this declaration was, "the time to act is now". ^{2/} The Committee renewed its call for the successful conclusion of the Uruguay Round by the end of 1993.

After seven years, negotiations on the Uruguay Round of the GATT finally concluded on December 15, 1993.

In the Spring of 1994 meeting, President Preston reported that the signing of the agreements in Marrakesh presented a major global opportunity for expanding trade, jobs and incomes; implementation of the Uruguay Round could lead to as much as 20% increase in global trade over the next decade; gains in annual world income were projected to be on the order to \$200-300 billion, with as much as one-third accruing to the developing countries. The President said that the concept of a WTO had first been suggested almost 50 years previously; ^{3/}the WTO could serve as an important complement to the Bretton Woods institutions by helping guide the world economy. The World Bank was looking forward to working closely with the new WTO, Mr. Preston added. Helping countries to grasp the opportunities of the Uruguay

^{1/} Development Committee Pamphlet No. 30, "Trade Policy Developments: Progress Report", Washington DC, September 21, 1992, pp.93-100.

^{2/} Development Committee Pamphlet No.32, "Joint Declaration by Michel Camdessus, Managing Director, IMF, Lewis Preston, President, World Bank, and Peter D. Sutherland, Director-General, GATT", Washington, DC, September 27, 1993, pp.133-134.

^{3/} Development Committee, Record of Discussion of the Committee's 48th meeting; DC/94-13, June 21, 1994, p.6.

Round and respond efficiently to trade liberalization would be an important task for the IMF, Mr. Camdessus pointed out in his opening remarks. He stressed that the IMF would apply its surveillance and programs to that task over the coming years; it should be noted in that context that the IMF was looking forward to collaborating closely with the new WTO, Mr. Camdessus added.

The Committee expressed satisfaction with the recent achievement in the Uruguay Round negotiations and with the agreements reached at the Marrakesh (Morocco) meeting. The Ministers called for rapid ratification and full implementation of these agreements. They also welcomed the creation of the new World Trade Organization (WTO), and urged the WTO, the World Bank and the IMF to cooperate fully, each with separate areas of responsibility, to help developing countries and countries-in-transition take advantage of the new market opportunities. At the meeting, the Ministers reviewed a World Bank paper which provided a preliminary assessment of the results of the Uruguay Round as they affect developing countries. ^{1/} The Ministers recognized that some developing countries may be adversely affected in the transition to the new world trading system, by loss of preference or by higher prices for food imports. These effects would however only be felt gradually, leaving time for adjustment. The Committee urged the World Bank and the IMF to take into account these possible adverse effects in designing country assistance strategies and operational support for the affected countries.

At this meeting the Committee also reviewed recent work in the World Bank and the IMF on non-oil commodity prices. ^{2/} The Ministers agreed that despite signs of a modest recovery in the short term, prices were not likely to return to the levels of the 1970s and 1980s. Consequently, their main conclusion was that developing countries need to be realistic, and not postpone adjustment in the hope of recovery. The Ministers encouraged the World Bank, the IMF and the donor community to support the efforts of developing countries in continuing to diversify their economies. The World Bank was also asked to explore additional measures in its investment work in this area. The Ministers recognized that continuing volatility of prices also requires the maintenance of contingency measures to safeguard programs supported by the IMF. It was acknowledged that for many countries and products, hedging instruments in commercial future markets permit private agents to protect themselves against price fluctuations, although there will always remain a number of legal, financial and technical barriers. The Ministers therefore expressed satisfaction with the technical assistance being given by UNCTAD, the World Bank and other agencies, to help small producers overcome these obstacles and take advantage of such markets. The Ministers, in particular, welcomed the new studies by the World Bank of "new

^{1/} Development Committee Pamphlet No.33, "The Uruguay Round: A Preliminary Assessment", Washington, DC, April 26, 1994, pp.71-96.

^{2/} Ibid., Pamphlet No.33, "Report on Developments in Non-Oil Commodity Prices", pp.53-70.

guarantee mechanisms" which permit poorer and less creditworthy countries to undertake market-based hedging operations.

In its Fall 1994 meeting in Madrid, the Committee reviewed the results of the recently completed Uruguay Round multilateral trade negotiations and their impact on the developing countries and economies in transition as well as on the future work of the World Bank and the IMF. ^{1/} The GATT Secretariat also provided a supplementary paper. ^{2/} The Committee noted that at present it is only possible to make a preliminary assessment of the likely effects. Mr. Preston, in his President's Report, informed the Members that "... A small number of countries may lose as a result of the agreement, but any losses are likely to be small. There are widespread concerns about the impact of rising food prices and the erosion of tariff preferences. Net food importers may face terms-of-trade losses from higher food prices, but costs are likely to be only modestly higher and to be incurred gradually, as the increase in food prices would be spread over at least six years. Moreover, appropriate policies to stimulate farm output can help reduce these costs. Finally, food aid recipients are not likely to suffer significantly because food aid is exempt from reductions in export subsidies ...". In his opening statement, Mr. Camdessus, the Fund Managing Director, said "... Aware of the possibility that some countries might experience transitional costs arising from the erosion of preference margins and possible higher prices for food imports, the IMF had established a work program to monitor developments in individual countries. In cases of balance of payments needs, the IMF was ready to provide financial support for policy adjustments under existing Fund facilities in conjunction with support from donors. That kind of assistance was precisely one of the original missions of the IMF, when it had been established fifty years earlier. For a comprehensive structural reform agenda, the Fund's medium-term facilities -- the Extended Fund Facility (EFF) and the Enhanced Structural Adjustment Facility (ESAF)--were particularly well suited. ..." The Ministers noted that existing instruments of the World Bank and the IMF would be adequate to deal with the negative effects of the Uruguay Round on some developing countries during the transitional period--in particular those which might need help adjusting to higher food prices and the erosion of preferences. The Committee called on the World Bank and the IMF to be ready to address these problems. The Committee also asked them to assist developing countries and countries in transition in maximizing new market opportunities. The World Bank and the IMF were also encouraged to assist countries in transition, many of which are not yet members of GATT, in their efforts to become more fully integrated into the multilateral trading system

^{1/} Development Committee Pamphlet No.34, "Joint Issues Paper: The Impact of the Uruguay Round on the Developing and Transition Economies", October 1994, pp.59-68.

^{2/} *Ibid.*, "Paper by the GATT Secretariat on the Outcome of the Uruguay Round for Developing Countries", pp.76-103.

and to adopt policies that would facilitate their accession to the World Trade Organization (WTO). ^{1/}

In its Spring 1995 meeting, the Committee welcomed the establishment of the WTO (January 1, 1995) and urged close collaboration between the WTO and the Bretton Woods institutions. The Committee reiterated its call to the World Bank and the IMF to assist those countries which are not yet members of the WTO to join the organization and to become more fully integrated into the multilateral trading system. The Ministers noted the World Bank's new estimates of the likely impact of the Uruguay Round upon the trade of developing countries. The Committee welcomed evidence of the positive effect the Uruguay Round will have on most developing countries, especially those which are taking this opportunity to reform their policies. The Ministers also noted the World Bank's view that the adverse impact upon food-importing countries and those which will lose preferential access to industrial markets is likely to be small. The Committee asked the World Bank and the IMF to monitor the impact of this on individual countries and to be prepared to help as necessary. The Ministers agreed that further liberalization of agricultural and service sectors would provide important gains.

Experience demonstrates that international trade issues will continue to be an important item for the Committee.

^{1/} Mr. Peter Sutherland, the Director-General of GATT, in his statement to the Committee mentioned that, "At the time of its creation, the GATT was sometimes branded a rich man's club. Only 11 developing countries were members at the outset. Efforts have been made to mitigate these concerns by adding a new part to the GATT itself and taking on various other supplementary agreements. There will be 94 developing members and four economies in transition which potentially will be joining the WTO. There are six developing countries and fourteen economies in transition presently seeking to accede to GATT and eventually to join the WTO. These countries will be joining a club, but a club for developed, developing and transition economies."

13. OTHER GLOBAL PRIORITIES

The Committee examined the financial implications of the other global priorities for the developing countries and their impact on the work of the Bretton Woods Institutions.

a. The Gulf Crisis

In the Fall 1990 meeting, the Ministers recognized that the economic prospects of many developing countries were affected by both the disruption of trade and workers' remittances and by the increase in the price of oil resulting from the events in the Middle East (which started between Iraq and Kuwait, and became a global issue). The Committee welcomed the efforts currently underway to coordinate distribution of financial resources for those countries affected. 1/ The Committee requested that the Boards of Executive Directors of the World Bank and the IMF commence a comprehensive review of measures that would enable the institutions to respond to this crisis promptly, flexibly and with expanded resources.

The Committee, in its 1991 Spring meeting, by welcoming the prompt response and ongoing efforts of the World Bank and the IMF, again urged those institutions to continue analyzing the financial requirements of the directly affected countries in the Middle East. The Ministers also underscored the importance of having a coordination arrangement which could deal with reconstruction of the region as well as the adjustment and longer-term development needs of the countries involved.

b. Impact of Natural Disasters

(i) Drought in Southern and Eastern Africa

In its Spring 1992 meeting, the Committee noted with great concern the impact of drought in the Southern and Eastern African regions and urged donors, as well as the World Bank and the IMF to provide maximum support for efforts coordinated by the United Nations.

(ii) Famine in Somalia and Widespread Flooding in the Indian Subcontinent

In the Fall of 1992, the Ministers welcomed the coordinated international action underway to alleviate suffering in these areas and called for active cooperation by all concerned both to overcome the immediate problems and to lay the foundations for future recovery and development.

1/ Development Committee Pamphlet No.26, "Potential World Bank Assistance to Countries Affected by the Persian Gulf Crisis", World Bank, pp.88-94; "Considerations on the Role of the IMF in Current Circumstances", IMF, pp.95-98, Washington, DC, September 24, 1990.

c. Middle East Peace Process (Gaza and the West Bank)

- In the Fall of 1993, Ministers welcomed the World Bank's role in preparing the ground for a coordinated program of financial support for Gaza and the West Bank as an outstanding contribution to the Middle East peace process.

d. Desertification

In its Fall 1994 meeting, the Committee welcomed the recent agreement at the anti-desertification convention, called for early ratification, and encouraged the World Bank to continue actively supporting development and environmental management in dryland areas.

14. AID EFFECTIVENESS

The Committee had acknowledged the importance of this issue when dealing with the Task Force's Report on Concessional Flows in 1986. 1/ The topic came up again in the Fall of 1992 when the Ministers, in drafting their Communique, agreed to review "the effectiveness of World Bank lending" at a future meeting.

President Preston reported to the Committee at its Spring 1993 meeting that in February 1992 he had established a Task Force on Portfolio Management, under the leadership of Mr. Willi Wapenhans, to examine the quality of the World Bank's portfolio and make recommendations. The Task Force's report was submitted to the Board of Executive Directors, under the title of "Effective Implementation: Key to Development Impact" in November 1992. 2/ Its fundamental conclusions were that the World Bank needs to modify some of its key institutional values about its lending operations. To evaluate the success of any given program, the World Bank "culture" needs to be more attuned to on-the-ground net benefits, not just the volume of lending; the main objective of the World Bank staff should not be getting as many projects as possible approved by the Board of Executive Directors under the lending program. The Report emphasized that in such an "approval culture", less attention had been given to the "commitment" and "ownership" of borrowers than to the number of projects approved by the Board. The Executive Directors endorsed the general thrust of the analysis and recommendations of the "Wapenhans Report". He added that the task ahead for Management was to incorporate these recommendations into the on-going business and processes of the World Bank; and an action plan, "Portfolio Management: Next Steps" 3/ fully responding to the recommendations of the Wapenhans Report, was submitted to the Board in April 1993. In his remarks at the meeting, Mr. Preston said that he was confident that the Members of the Development Committee would support the efforts to further enhance the effectiveness of World Bank lending. 4/ The Ministers praised the Bank's efforts for undertaking a frank and critical self-evaluation of its project performance, and stressed the importance of a vigorous action program. The Committee also urged all development agencies which had not already done so to undertake similar efforts to improve the development impact of their

1/ Development Committee Pamphlet No.8, "Aid for Development: The Key Issues". Chapter 2, pp 25-54, February 1986. See also Robert Cassen & Associates, "Does Aid Work? Report to an Intergovernmental Task Force", Clarendon Press, Oxford, 1986.

2/ The World Bank's Portfolio Management Task Force report is known as the "Wapenhans Report" R92-125, November 3, 1992. Its findings are summarized in "Getting Results: The World Bank's Agenda for Improving Development Effectiveness", July 1993.

3/ The World Bank, Report No. R93-62, "Portfolio Management: Next Steps", Washington, DC, April 5, 1993.

4/ Development Committee Pamphlet No.31, "President's Report to the Development Committee", Washington, DC, May 1, 1993, pp.6-24.

assistance, and to concentrate aid operations on the poorest countries and those where aid could be most effective.

In the Fall of 1993, President Preston reported to the Committee that "A Summary of the Next Steps" had been approved by the Board in July; 1/ This plan outlined specific actions, responsibilities, and timeframes. The central messages were that: (i) the World Bank's portfolio should be managed on an overall country basis rather than simply a project-by-project basis; (ii) portfolio performance should be explicitly linked to country lending programs; (iii) the Bank should focus greater attention on the supervision of ongoing projects and improve quality control at the start of new projects, and should foster greater stakeholder participation. One of the key lessons learned is that it is important for the Bank to present timely and relevant information about "what the World Bank is doing or proposes to do in the future". The President stressed that greater transparency of the Bank's work would enable its "shareholders" to feel confident that they understand and support the World Bank's operations. Mr. Preston drew attention, however, to the fact that the World Bank's relationship of trust with its borrowers rests on its ability to maintain the confidentiality of certain types of information; with these concerns in mind, the Bank's Board of Executive Directors had approved a more open "information policy". The Committee welcomed the steps taken by the World Bank and agreed on the need for donor agencies and multilateral institutions to maintain and improve their cost-effectiveness. The Committee decided to address the matter of enhancing the effectiveness of development assistance in 1994.

In the Committee's Spring 1994 meeting, President Preston reported that the Board of Executive Directors had approved the establishment of an "independent inspection panel" to review the Bank's actions on projects deemed controversial and problematic; 2/ this was an important step in considering the World Bank's accountability for its performance. At the meeting, on the initiative of Secretary Bentsen (U.S.), perspective on the concept of aid effectiveness was broadened to include the role of the other multilateral development banks (MDBs). The Committee agreed in principle to establish a Task Force to review the development role being played by the MDBs - the World Bank and the four main regional banks (Inter-American Development Bank, African Development Bank, Asian Development Bank and the European Bank for Reconstruction and Development.) 3/

1/ Development Committee Pamphlet No. 32, "President's Report to the Development Committee", Washington, DC, September 27, 1993, pp.7-22.

2/ Ibrahim F.I. Shihata, "The World Bank Inspection Panel", published for the World Bank, Oxford University Press, 1994.

3/ The Task Force is composed of 18 representatives (including the Chairman) appointed by the member countries. Mr. Abdlatif Y. Al-Hamad (Kuwait) is the Chairman, and Mr. W.A. Wapenhans (Germany) is the Secretary. The Task Force had its first meeting in Washington, DC on December 5-6, 1994, a second meeting in Kuwait in April 1995; a third meeting took place in London in July 1995.

At its Fall 1994 meeting in Madrid, the Committee discussed the aid effectiveness issue as a main agenda item. In addition to the joint issues paper, 1/ the Chairman of the DAC-OECD presented a supplementary paper. 2/ The Ministers recognized that the effectiveness of development assistance is defined broadly to include not only support for policy reform and capacity building but also investment projects. Aid effectiveness is of concern to all parties involved since it is affected by a number of internal factors such as quality of domestic policies, and institutional and organizational framework; it also includes external factors, such as terms of trade, international interest rates, export demand, commodity prices, resource flows, the quality and quantity of funds provided by bilateral and multilateral agencies. In the issues paper, the effectiveness of aid was reviewed in terms of achieving the ultimate objective of development which is to reduce poverty and improve living standards through sustainable growth and investment in people. The Chairman of DAC, Mr. J.H. Michel, stressed that "when we speak of effective aid we should be thinking of aid that is effective in contributing to sustainable development". Although aid is traditionally defined as concessional financing, the findings of the issues paper were also relevant to non-concessional official financing. The focus of this issues paper was on what donors 3/ can do to support aid effectiveness; it also underscored the critical role of efforts in recipient countries to improve aid effectiveness. The issues paper concluded that donors can help recipient countries develop programs, policies and an institutional environment necessary for getting the most out of the available resources; donors also need to ensure that their internal business practices and procedures support the effective use of resources and do not impede similar efforts by the recipient countries.

The Committee agreed that effective aid requires closer collaboration between all parties involved. One of the Committee's main messages was that for aid to be most effective, it has to be adequate, and to operate in a favorable environment. The Ministers concluded that prime responsibility for formulating domestic policies which contribute to aid effectiveness rests with the recipient countries themselves. The Committee agreed on the following three "guiding principles" for the recipient countries: firstly, appropriate domestic economic policies tailored to local conditions are essential; second, effective use of aid requires strong administrative and institutional capacity, and third, "ownership" by the government and participation by other stakeholders, including beneficiaries, are essential. With

1/ Development Committee Pamphlet No.34, "Issues Paper: Aid Effectiveness", pp.27-58.

2/ *Ibid.* Pamphlet No.34, "Improving Aid Effectiveness", by James H. Michel, Chairman, Development Assistant Committee-OECD, pp.69-75.

3/ In the issues paper, the term "donors" covers official agencies providing both grants and loan assistance and is sometimes used to encompass the role of the IMF in providing policy advice, and financial and technical assistance.

regard to the role of donors and international agencies, the Committee agreed on the following six "guiding principles":

(i) The best conditions and policies for aid cannot substitute for strong "ownership" by the recipient government or good governance. Donors and recipients must collaborate to make this the foundation for effective aid.

(ii) Donors should support participation by stakeholders--especially women, the poor and other disadvantaged groups--in order to improve the design and proper implementation of projects: The Committee called on the World Bank to strengthen its skills mix and incentive system.

(iii) Technical assistance should work within, and if necessary seek to strengthen, the institutional arrangements as approved by the DAC: The Committee concluded that technical assistance is likely to be most effective when it responds to the need and absorptive capacity of the recipient.

(iv) Multilateral agencies, including the IMF, the World Bank Group and the regional development banks, should work closely to support countries' efforts to put in place a sound framework for macro-economic and structural policies which foster the private sector and strengthen public sector management. Aid programs should be consistent within this framework, and with the country's own development priorities: The Committee stressed that innovative approaches should be encouraged to achieve these objectives. The World Bank should also strengthen the lines of consultations with other donors, who in turn, will be collaborating agents in this approach.

(v) Aid operations should be made more transparent to improve accountability. Donors should avoid setting up mechanisms inconsistent with the recipients' own efforts to manage budgets and implement aid: The Committee encouraged the donors to accelerate efforts to coordinate and simplify aid procedures and practices. The Ministers expressed support for the recent efforts in the DAC to reduce the size of tied aid credits. The Committee urged donors to minimize the additional costs associated with trade-distorting tying of aid, wherever this can be done without reducing volume.

(vi) In addition to mobilization of financial resources, the agenda for Consultative Groups should cover issues of development strategy, aid utilization, aid coordination and technical assistance. The Ministers recognized that the DAC Principles provide an appropriate framework for improving aid coordination; and Consultative Groups and Round Table Meetings are more effective when preceded by active involvement of the recipient government, and consultation with other donors.

The Ministers also acknowledged that many of these guiding principles apply with equal force to the countries-in-transition. The Committee concluded that more attention be given in the countries-in-transition, in differing degrees, to informing both policymakers and public opinion at large

of the workings of a market economy and the complementary roles of the public and private sectors.

The Ministers also referred to the recent efforts to improve the effectiveness of the World Bank and other main MDBs. The Committee called on these institutions to sustain and extend their efforts by giving particular attention to: shifting the focus from projects to country programs; improving the "quality at entry" of projects; strengthening evaluation and disclosure policies; streamlining procedures; addressing urgently the adequacy of field office networks; and changing staff incentives to focus on development impact. The Ministers recognized that aid can also help stimulate private investment, and institutions like IFC and MIGA can play a valuable role in this process. The Committee called on IFC and MIGA to pay due attention to development effectiveness.

The Committee decided to follow up on all of these issues at its future meetings.

In the Committee's Spring 1995 meeting, Mr. G.S. Kaji, the Bank Managing Director who represented President Preston, informed the Members that in many ways the World Bank was currently very different from what it had been when Mr. Preston came to the institution in September 1991. It was now more client-oriented, with the focus firmly on comprehensive country assistance strategies; more results-oriented with emphasis on development impact in the field; more collaborative, through strengthened partnerships with official and non-official organizations; more open, with greatly expanded information disclosure and an independent Inspection Panel; and more cost-effective with its administrative expenses well below 1% of its earning assets -- a lower ratio than in most commercial banks.

15. FINANCING OF INFRASTRUCTURE

The Committee had an opportunity to focus on the provision of finance for infrastructure in developing countries as a main agenda item in its April 1995 meeting. In addition to an issues paper, the Ministers received two supplementary papers on this issue. ^{1/} In his opening statement, Chairman Kabbaj once more drew the attention of the Ministers to one of the important aspects of the issue by noting that infrastructure is a \$200 billion a year problem for developing countries. President Preston stressed this fact in his report as well. Developing countries have been investing an average of 4% of their GNP. As pointed out in the staff issues paper, private financing is in one form or another accounted for by only about 7% of infrastructure project finance in 1995; and it might reach 15% by the year 2000. With bilateral and multilateral foreign aid accounting for another 12% of annual infrastructure investment, developing country governments thus put up about 80% or more for financing infrastructure. The challenge for governments now is how to promote the public and private sectors to become more meaningful and effective partners in financing infrastructure which serves the objectives of economic growth, poverty reduction and environmental sustainability. Large investments in infrastructure, in particular in water supply, telecommunications and power, have allowed service capacity to increase faster than population growth. But the unmet demand for basic services has remained huge; in the Third World one billion people lack access to safe water, and about two billion people lack adequate sanitation or electric power.

The Ministers acknowledged that present and future demand for delivering basic infrastructure services is unlikely to be met by the current methods used by the public sector--characterized in many developing countries by inefficient operation, unresponsiveness to users and poor financial management. The Ministers also noted the following: (i) low and middle-income countries could save more than \$55 billion a year by providing adequate maintenance and efficient operation of roads, power and railways; (ii) providing service to new users who are willing to and able to pay is often excessively delayed. For instance, of 95 countries surveyed in recent years, 37 had a six-year wait (or more) for telephone service; (iii) The annual costs not recovered from users is estimated to be \$90 billion for power, \$18 billion for water supply, and \$15 billion for railways.

Mr. G.S. Kaji, the Acting President of the Bank, informed the Members that to improve service, governments needed to take a more commercial approach -- to run infrastructure like a business rather than a bureaucracy;

^{1/} Development Committee Pamphlet No.35: a. The issues paper: "Financing of Infrastructure in Developing Countries"; b. Supplementary papers: (i) "Infrastructure Financing in a Post-Adjustment Economy" by the Ministry of Finance and External Investment, Kingdom of Morocco; (ii) "Increasing the Supply of Bankable Infrastructure Projects in Developing Countries" by the Institute of International Finance, Washington, DC.

at the same time, more private involvement in infrastructure was essential on financial grounds. Consequently, this was one of the areas where the World Bank was changing its approach: to leverage more private investment in infrastructure through expanded guarantee programs and the expanding role of IFC. More importantly, the World Bank was intensifying its efforts to help governments put in place the environment to attract increased private involvement through macro and sectoral policy changes, regulatory reform, and domestic capital market development. Overall, the World Bank's goal was to help governments play the role more of a facilitator than a direct provider of infrastructure. In addition, the World Bank was giving more attention to building local capacities; to the linkages between infrastructure and environmental quality; and stressing the importance of ownership and participation in infrastructure projects.

The Committee recognized that carefully designed and efficient infrastructure is crucial to sustained development; in this sector, there is need for more investment and improved performance. The Committee acknowledged that improvement would require developing countries to carry out the following reforms: (i) to have more business-like management; (ii) to charge realistic prices for services rendered; (iii) to be more attentive to maintenance; and (iv) to promote more private sector involvement in the provision of infrastructure and in its financing. Experience shows that the option chosen for the involvement of private finance will vary for each country and for each service depending upon conditions such as the institutional, legal and regulatory framework. Nevertheless, private investment can be encouraged through the following methods: build-own-operate concessions, leases, operating contracts, partial guarantees from the public sector and privatization. The Ministers agreed that the aim must be to pass some of the risks on to the private sector and to reduce the need for public funding and public guarantees. The Ministers also agreed that the poor stand to gain directly and quickly from better infrastructure; carefully designed infrastructure will also help to improve environmental conditions. The Committee urged the donor countries to help the low-income countries by providing financial and technical support, export credit and investment guarantees for the development of infrastructure. The Ministers requested that the multilateral institutions play a catalytic role in raising funds from a wider range of private sector sources, using all the instruments currently available (e.g. IFC, MIGA, World Bank guarantees).

16. REVIEW OF THE PERFORMANCE OF THE DEVELOPMENT COMMITTEE

In accordance with Article 7 of the Parallel Resolutions, the first two reviews were undertaken (in 1976 and 1978) to evaluate the performance of the Committee. In January 1979, the institutions made a proposal (endorsed by Chairman Virata and communicated accordingly to the Ministers) to institute a series of new arrangements. These arrangements, known as the "Ten Points", suggested the following major changes: establishment of the Troika, reducing the size of the Secretariat, abolishing working groups and giving the preparation of papers and studies henceforth to the staff of the institutions. In the course of the third review in 1981, these "Ten Points" were retrospectively approved by the Committee.

Another partial review took place in 1987. At that time the Potter Committee redefined the roles of the institutions and the Executive Secretary. The Steering Committee was established and the position of Advisor formally given to the Secretariat

Chairman Chidzero's consultations with the Ministers during the last year of his tenure, in 1990, indicated that there was no desire for another review. As Chairman, however, he expressed concern about several organizational and procedural aspects of the Committee which might need further consideration. 1/

His successor, Minister Foxley, expressed dissatisfaction with the way the Committee operated. He asked the Bank to produce a paper listing various options. This paper 2/ (dated April 22, 1992) was considered in a Troika meeting. In the end, the option chosen by the Chairman was the one which proposed "to retain the status-quo, with further marginal improvements".

On Chairman Rudolf Hommes' initiative, during the Fall 1993 meeting, the Ministers agreed on the need for a review of the Committee's future operations. He established a small Review Group, consisting of the Ministers from Africa (Côte d'Ivoire), East Asia (Thailand), Latin America (Chairman Hommes), the Middle East and North Africa (in practice, Saudi Arabia), the Nordic/Baltic countries (Denmark), and the United States, together with the representatives of the World Bank and the IMF. This Ministerial Group was assisted by a Deputy Level Review Group (basically made up of the Bank EDs of those Ministers).

1/ Reflections by the Chairman of the Development Committee, Mr. B.T.G. Chidzero, on his Experiences during his Four-year Term (1986-1990), September 1990.

2/ The World Bank's April 22, 1992 paper contained the following four options (with a clear preference for the second option): (a) dissolve the Committee; (b) retain the status quo, with further marginal improvements; (c) retain the status quo, but give the Committee more work to do; (d) form a Bank-only Committee, paralleling the Interim Committee of the IMF.

Under the chairmanship of Minister Hommes, the Deputy-level Review Group met in November 1993 and exchanged views on the Executive Secretary's background paper which included seven possible alternatives for the future of the Committee. 1/ It was agreed that the last three options should be discussed with the Executive Directors.

In their first consultation meeting in January 1994, the Bank and Fund EDs discussed a subsequent paper presented by the Executive Secretary which outlined eight possible alternatives. 2/ There was no consensus. Some EDs favored a mainly Bank Committee, but views were divided: some preferred variations of this option while some were against it completely.

The Deputy-level Review Group, chaired by Minister Hommes, held its second meeting in March 1994 to look at a model presented in the Executive Secretary's new paper--a "mainly-Bank Committee with new policy orientation" presented in two slightly different forms. The Group also considered another proposal made by the Government of Switzerland. Although there was a reservation by the Nordic/Baltic representative, the majority of the Deputies endorsed a draft Deputies' Report which included a variation of the "mainly Bank Committee" which would be brought before the Ministerial Review Group for discussion prior to the Committee's April 1994 meeting. It was agreed that the EDs would be consulted.

The Executive Directors met for a second time in April 1994 to exchange views on the proposed model of a "mainly Bank Committee". There was no consensus and again the majority of the EDs recommended a delay in action for a further study. After the EDs' meeting, the Executive Secretary prepared the Deputy-level Review Group's report (dated April 12, 1994) which

1/ The Executive Secretary's paper (dated October 8, 1993) included the following options: (i) abolition of the Committee; (ii) abolition and replacement by a U.N. body; (iii) merger with the Interim Committee; (iv) making it a Bank-only Committee with the same present functions; (v) making it a Bank-only Committee with new policy functions (basically by abolishing the joint status, the independent Secretariat and giving the secretariat function to the World Bank's Vice-President and Secretary); (vi) the existing Committee with new information functions; (vii) retaining the existing Committee and making procedural improvements.

2/ The Executive Secretary's paper (dated December 8, 1993) presented the following options: (i) abolition of the Committee; (ii) abolition and replacement by a new UN body; (iii) merger with the Interim Committee; (iv) keeping a mainly-Bank Committee with the same functions as now; (v) having a mainly-Bank Committee with new functions (in other words, a Bank policy-oriented Committee which also takes over the functions of the independent Secretariat); (vi) retaining the existing Committee with new powers; (vii) retaining the existing Committee with new information functions; and (viii) retaining the existing Committee with procedural improvements.

included a proposed package of recommendations on the mainly-Bank model. 1/ The Deputies were consulted. However, because of the (Nordic/Baltic) reservation, the Deputies were not able to reach a consensus.

The Ministerial Review Group met prior to the morning session of the April 26, 1994 meeting and considered the Deputy-level Review Group's Report (which included a reservation). Although they did not reach a unanimous decision on the package of recommendations, they agreed to present the Deputies' report to the Committee at the Chairman's lunch session. During that session, the Ministers reached a consensus on many of the recommendations in the Deputies' report and agreed that the Ministerial Review Group should meet later in the summer to consider the remaining issues. Chairman Hommes reported this to the Members in a letter dated April 26, 1994. However, decisions relating to the Deputies' recommendations described in his letter were not accepted by all of the Ministers.

The Deputy-level Review Group, under the chairmanship of the Executive Secretary, met in May 1994 to take stock of the situation. Some of the Deputies suggested that discussion of the Deputies' report be re-opened to include the whole package of recommendations as proposed by some of the Ministers and EDs and that the size of the Deputy-level Review Group be extended to include all Bank and Fund EDs. Minister Hommes' successor (following the April 1994 meeting), Chairman Sagou--also responding to written complaints from some of the Ministers--decided to reconsider the Deputy-level Review Group's package of recommendations as a whole and to enlarge this group to include all EDs.

In the meantime, a new proposal (dated May 31, 1995) by the Government of the Netherlands was circulated to all the EDs. 2/

The enlarged Deputy-level Review Group met in June 1994 and decided to recommend the following to the Chairman: (i) instead of the Ministerial Review Group, the new Deputies' Group should meet under his chairmanship in July to review all the proposals; (ii) a Ministerial Review Group meeting should be held in Madrid prior to the October 1994 meeting.

1/ In the "mainly-Bank Committee" model, the joint status and basic mandate of the Committee remain the same. The independent Secretariat would be abolished, the present Vice-President and Secretary of the World Bank would be appointed Secretary of the Committee ex officio; one meeting per year, in principle, was recommended; new procedures were suggested for the selection of agenda, preparation of papers and the communique. A further review in three years was proposed.

2/ The Dutch proposal is basically an option for a "Mainly Bank Committee" that aims to provide guidance to the Bank on important policy items. A special role for the IMF would be maintained and the independent Secretariat kept. Two meetings per year are suggested and the Agenda would be limited to one or two topics.

Minister Sagou's successor (starting in July 1994), Chairman Mourad Cherif agreed with these suggestions and decided that the enlarged Deputy-level Review Group should reconsider two documents: (i) the package of recommendations of the previous Deputy-level Review Group as a whole; and (ii) the new Dutch proposal, at a meeting to be held under his chairmanship in September 1994; then the Deputies' report would be submitted to the Ministerial Review Group (in October 1994) in Madrid. However, Chairman Cherif could not come to Washington, D.C.; at his request, the Deputy-level Extended Review Group held its meeting as scheduled, chaired by Mr. Al-Assaf, the Dean of the World Bank Board of EDs. After discussion on the questions of timing and procedure, a tour-de-table established that a significant majority of EDs was in favor of a further postponement. The EDs, therefore, suggested that the Chairman cancel the proposed Ministerial Review Group Meeting and to report this position to the Ministers at the lunch session of the Fall 1994 meeting in Madrid.

At the lunch session in Madrid, Chairman Cherif informed the Committee of the situation. The Ministers agreed to freeze discussion of this topic for 12 months, until October 1995.

Minister Cherif's successor, Minister Mohamed Kabbaj, followed suit at the April 27, 1995 meeting. As indicated in Section I (5) above, the Ministers endorsed an interim arrangement for the Committee's Secretariat starting July 1, 1995.

There were some developments related to this issue in other forums.

The July 1994 report of the Bretton Woods Commission favored strengthened governance for the World Bank Group, proposing specifically that the Development Committee become a more effective forum giving clear guidance for World Bank policy.

At the Halifax G-7 Summit in June 1995, reference was made to the future roles of the Interim and Development Committees. ^{1/} Although the Summit did not recommend any specific resolution, in their communique the G-7 stated, "We will encourage revision of the Ministerial committees of the IMF and the World Bank to promote more effective decision-making."

President Wolfensohn's June 15, 1995 letter to Chairman Kabbaj (which was circulated to the Members by the Chairman) brought a new dimension of encouragement to this phase of efforts being made regarding the future of the Development Committee. Mr. Wolfensohn suggested that the Members should

^{1/} A background document entitled "Review of International Financial Institutions" included two options: first, the merger of the two Committees, with a broader mandate, to focus on the global financial and development policy issues; the second option, to transform the Development Committee into a more effective policy steering committee with a relationship to the World Bank Group analogous to that of the Interim Committee of the IMF.

use the October 1995 meeting to begin to transform the Committee into "... a truly effective, interactive forum where major issues facing the Bank are discussed and where Ministerial advice and guidance are obtained...". In the words of Chairman Kabbaj, "...this is a very welcome initiative; it clearly indicates a strong personal and institutional commitment on his [Mr. Wolfensohn] part to make the Committee more effective."

On August 25, 1995, the Troika endorsed a set of recommendations for the future of the Development Committee based on these proposals (see Annex IV). The World Bank and IMF Executive Directors discussed and endorsed these recommendations in their Committees of the Whole meetings held on September 5 and 8, 1995, respectively.

The Development Committee will consider these recommendations at its October 9, 1995 meeting. 1/

1/ The Committee approved the Troika recommendations on the future of the Committee at the October 9, 1995 meeting.

TEXT OF PARALLEL IBRD AND IMF RESOLUTIONS
ESTABLISHING THE DEVELOPMENT COMMITTEE ^{1/}

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;

^{1/} 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 Chairman.
- (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.

List of Countries Represented by them and their Executive Directors
at the World Bank and the International Monetary Fund

(As of April 26, 1995)

Group No.	Members	Executive Directors	Countries
1.	Mohammad Abalkhail Minister of Finance and National Economy Saudi Arabia	Ibrahim A. Al-Assaf (Bank) Muhammad Al-Jasser (Fund)	Saudi Arabia
2.	Ibrahim Abdul Karim Minister of Finance and National Economy Bahrain	Faisal Abdulrazak Al-Khaled (Bank) A. Shakour Shaalan (Fund)	Bahrain, Egypt, Jordan, Kuwait, Lebanon, Socialist People's Libyan Arab Jamahiriya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen
3.	Edmond Alphandery Minister of Economy France	Marc-Antoine Autheman (Bank and Fund)	France
	<u>Alternate Member</u> Christian Moyer Director of the Treasury Ministry of Economy France		
4.	Anthony A. Ani Minister of Finance Nigeria	Harry M. Napendo (Bank) Barnabas S. Dlamini (Fund)	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
5.	Anwar Ibrahim Minister of Finance Malaysia	Suwan Pasugsuad (Bank) J.E. Ismael (Fund)	Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Viet Nam
	<u>Alternate Member</u> Clifford F. Herbert Secretary-General to the Treasury Ministry of Finance Malaysia		
6.	Orlando Bareiro Aguilera Minister of Finance Paraguay	Julio Nogues (Bank) Carlos Salto (Fund)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

Members	Executive Directors	Countries
7. Franz Blankart Secretary of State, Director Federal Office for Foreign Economic Affairs Switzerland	Jean-Daniel Gerber (Bank) Daniel Kaeser (Fund)	Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Republic of Tajikistan, Turkmenistan, Uzbekistan
8. Anatoli Chubaïs First Deputy Chairman Russian Federation	Andrei Sugrov (Bank) Dmitri Tulin (Fund)	Russian Federation
9. Kenneth Clarke Chancellor of the Exchequer United Kingdom	Huw Evans (Bank and Fund)	United Kingdom
10. Roberto F. de Ocampo Secretary of Finance Philippines	Marcos C. de Paiva (Bank) Alexandre Kafka (Fund)	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Philippines, Suriname, Trinidad and Tobago
11. Lamberto Dini Prime Minister and Minister of the Treasury Italy	Enzo R. Grilli (Bank) Giulio Lanciotti (Fund)	Albania, Greece, Italy, Malta, Portugal
<u>Alternate Member</u> Antonio Fazio Governor Banca d'Italia Italy		
12. Mohamed Kabaj (Chairman) Minister of Finance and Foreign Investment Morocco	Abdul Karim Lodhi (Bank) Abbas Mirakhor (Fund)	Islamic State of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia
<u>Alternate for the Chairman</u> Mohamed Seqat Governor Bank Al-Maghrib Morocco		

Members	Executive Directors	Countries
13. Liu Zhongli Minister of Finance China	Zhang Shengman (Bank) Zhang Ming (Fund)	China
<u>Alternate Member</u> Jin Renqing Vice Minister of Finance China		
14. Paul Martin Minister of Finance Canada	Leonard Good (Bank) Ian D. Clark (Fund)	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
15. Philippe Maystadt Minister of Finance Belgium	Walter Rill (Bank) Willy Kiekens (Fund)	Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey
16. N'Goran Niangien Minister Delegate to the Prime Minister in charge of Economy, Finance, Commerce and Planning Cote d'Ivoire	Ali Bourhane (Bank) Yves-Marie T. Koissy (Fund)	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Republic of Congo, Cote d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Republic of Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo, Zaire
17. Robert E. Rubin Secretary of the Treasury United States	Jan Piercy (Bank) Karin Lissakers (Fund)	United States
18. Manmohan Singh Minister of Finance India	Bimal Jalan (Bank) K.P. Geethakrishnan (Fund)	Bangladesh, Bhutan, India, Sri Lanka

Members	Executive Directors	Countries
<p>19. Pedro Solbes Minister of Economy and Finance Spain</p> <p><u>Alternate Member</u> Alfredo Pastor Secretary of State for Economy Ministry of Economy and Finance Spain</p>	<p>Jorge Terrazas (Bank) Luis E. Berrizbeitia (Fund)</p>	<p>Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Spain, Venezuela</p>
<p>20. Carl-Dieter Spranger Federal Minister for Economic Cooperation and Development Germany</p>	<p>Fritz Fischer (Bank) Stefan Schoenberg (Fund)</p>	<p>Germany</p>
<p>21. Masayoshi Takemura Minister of Finance Japan</p>	<p>Yasuyuki Kawahara (Bank) Hachiro Mesaki (Fund)</p>	<p>Japan</p>
<p>22. Iiro Viinanan Minister of Finance Finland</p>	<p>Ruth Jacoby (Bank) Jarle Berge (Fund)</p>	<p>Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden</p>
<p>23. Ralph Willis Treasurer Australia</p> <p><u>Alternate Member</u> George Gear Assistant Treasurer Australia</p>	<p>John H. Cosgrove (Bank) Ewen L. Waterman (Fund)</p>	<p>Australia, Cambodia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Papua New Guinea, Solomon Islands, Vanuatu, Western Samoa</p>
<p>24. Gerrit Zalm Minister of Finance Netherlands</p> <p><u>Alternate Member</u> J.P. Pronk Minister for Development Cooperation Ministry of Foreign Affairs Netherlands</p>	<p>Eveline Herfkens (Bank) J. de Beaufort Wijnholds (Fund)</p>	<p>Armenia, Bulgaria, Croatia, Cyprus, Georgia, Israel, Former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, Ukraine</p>

* Alternate Members are those who attended the Meeting of the Committee for their Members.

OBSERVERS OF THE DEVELOPMENT COMMITTEE

African Development Bank	(AfDB)
Associate: Arab Bank for Economic Development in Africa	(BADEA)
Arab Fund for Economic and Social Development	(AFESD)
Arab Monetary Fund	(AMF)
Asian Development Bank	(AsDB)
Commission of the European Communities	(CEC)
Commonwealth Secretariat	(COMSEC)
European Investment Bank	(EIB)
European Bank for Reconstruction and Development	(ERBD)
The Cooperation Council for the Arab States of the Gulf (Gulf Cooperation Council)	(GCC)
Inter-American Development Bank	(IDB)
International Fund for Agricultural Development	(IFAD)
Islamic Development Bank	(IsDB)
Organization for Economic Co-operation and Development	(OECD)
Associate: Development Assistance Committee	(DAC)
OPEC Fund for International Development	(OPEC FUND)
United Nations	(UN)
Associates: United Nations Conference on Trade and Development	(UNCTAD)
United Nations Development Program	(UNDP)
World Trade Organization	(WTO)

1. The Committee's basic mandate (to consider transfer of resources issues) and its structure would remain the same. The Fund would continue to be a partner in the Development Committee.
2. The Committee's focus would shift heavily towards World Bank issues of policy importance and other matters of broad development significance.
3. The Members would provide advice and guidance to the Bank and, as appropriate, the Fund.
4. The Committee determines its own agenda. The Troika will propose agenda topics for review and approval by the Executive Boards before submitting the provisional agenda to the Committee. Members may, of course, also wish to propose items for the Committee's consideration. The President of the World Bank has a special responsibility to propose issues which he believes require the attention of ministerial-level leadership in member governments. Agenda topics would be considered by the Executive Directors in advance in order to prepare the ground for ministerial discussions.
5. While the current practice of meeting twice a year would continue for the time being, the frequency of Committee meetings would be subject to further review based on experience with the new approach to the Committee and on the need for ministerial-level discussion of appropriate issues.
6. Increased flexibility would be introduced into the Committee's work. The specific agenda would not usually be fixed far in advance; plenary discussions (if held at all) would be more focused on a few specific propositions whenever possible; restricted sessions would become the predominant format for Committee discussions to increase candor, effective interchange and participation; and the lunch session would normally consider subjects not ready for the Communique.
7. Any papers prepared for the Committee would be short and focused on a small number of critical questions, options or propositions for the ministers. The President and Managing Director would each provide a brief statement on key agenda issues. A short note on Recent Trends in Resource Flows would be provided as background material for each meeting.
8. The Communique, drafted by the Secretariat, would be kept very brief and issues-oriented, and be based on conclusions of Board discussions, the Chairman's statement and Members' comments.
9. Members will select as Executive Secretary, for a three-year term, a person proposed for this position by the President and Managing Director, after consultation with World Bank Executive Directors.
10. While not binding for future meetings, major changes in format will be initiated for the October 9 meeting, as follows:
 - **9:00-10:00 a.m.: Plenary.** The short plenary will be limited to brief introductory speeches by the Chairman, Managing Director and President (and UN Secretary-General on this occasion). Prepared statements by Members would be widely distributed; key points of those statements available at least 24 hours (and preferably 48 hours) in advance would be summarized by the Secretariat and reflected in the Chairman's statement.
 - **10:15 a.m. - 12:30 p.m.: Restricted Session.** In a restricted session in the IMF Board Room, Members (accompanied by two associates and the Bank ED) would consider a number of critical World Bank-related policy issues, which would have been discussed in advance with the Executive Directors.
 - **12:30 - 2:30 p.m.: Chairman's Lunch** for the Members, President and the Managing Director. Mr. Wolfensohn will present his assessment of the Bank, after four months on the job, and invite Members' thoughts. This session would be especially useful for a candid exchange of views which would not, of course, be included in the communique. Members would be asked to approve the communique based on a "final" text agreed upon by their representatives. The lunch would be over by 2:30 p.m.
11. The format for future meetings would be refined based on the experience on October 9 and in light of the specific issues to be considered, which would reflect the broad mandate of the Committee. For example, the agenda for the April 1996 meeting will include consideration of the Report of the MDB Task Force.

