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



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COMMUNIQUE

1. The Committee held its 42nd meeting in Bangkok on October 14, 1991, under the chairmanship of Mr. Alejandro Foxley, Minister of Finance of Chile.^{1/} It was pleased to welcome for the first time the new President of the World Bank, Mr. Lewis T. Preston.
2. The Committee concentrated its discussion on two related issues: Development Priorities for the 1990s and the Implications for the World Bank Group; and Human Resource Development.
 - I. Development Priorities for the Nineties
 - a. Implementation of an Agreed Strategy
3. The Committee agreed that the priority development objectives for the nineties are the reduction of poverty and the achievement of sustainable growth; actions to protect the environment are essential to both objectives. It welcomed the broad consensus among Members and institutions on these objectives, which have been clearly set out in recent World Development Reports. The Committee believes that the main task for the 1990s is now the implementation of these objectives. The Committee recognized that resource flows are essential for this purpose and requested the Bank in collaboration with the Fund to prepare a comprehensive study of the outlook for such flows including the role of the World Bank Group, the implementation of sound economic policies and investment reforms. It agreed

^{1/} Mr. Lewis T. Preston, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Rudolf Hommes, Minister of Finance and Public Credit of Colombia (Chairman of the Group of Twenty-Four) and Mr. Peter Mountfield, Executive Secretary of the Development Committee, participated in the meeting. Observers from Switzerland and 17 international and regional organizations also attended.

that attainment of the objectives will depend on several mutually-supporting factors: the complementary roles of the state and the private sector; the strength of developing country human resources and institutions; the creation of a market-friendly environment for development; the economic policies pursued by both developing and industrial countries; and the availability of domestic resources.

b. Role of the Developing Countries

4. Members recognized that many developing countries have made good progress in reforming their economies. Despite this progress, and especially if the present resource constraints continue, there will be great pressure upon these governments to pursue further economic reforms, in order to mobilize domestic resources, attract foreign direct investment, and increase the efficiency of capital use. Members believed that reforms which reflect free and undistorted pricing, open trade policies, transparent and non-discriminatory investment policies and an appropriate financial, legal and regulatory framework, supported by effective and accountable political and administrative systems, can help create a stable market environment. They noted that fiscal reform would release resources to help finance poverty reduction programs and essential investment in social sectors. They also agreed that the reduction in global and in many regional tensions should help developing countries to reduce excessive and unproductive arms expenditures. They recognized that adjustment efforts could present short-term problems for developing countries, especially for the poorest and most heavily-indebted among them, and could require the establishment of appropriate safety nets. The Committee called on the Bank and the Fund to continue to consider how best they could support the reform efforts of adjusting countries.

c. Role of the Industrial Countries

5. Members 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; they noted that wider access to world markets is essential for the developing countries as well as benefiting producers and consumers in industrial countries. They also noted that trade distortions are more damaging to the developing countries than 10 years ago and seriously weaken the benefit of current levels of official development assistance (ODA). They were therefore disturbed at the continued delay in concluding the Uruguay Round. They welcomed the readiness of the G-7 London Summit leaders to intervene with one another if differences can only be resolved at the highest level. Members undertook to press upon their ministerial colleagues in their own capitals the need for a comprehensive agreement which would reduce trade barriers significantly, and would include rules to create a stable and predictable trading environment and to provide incentives for enhanced investment and greater opportunities for developing country exporters. They emphasized the urgent need for agreement at the political level well before the end of 1991.

6. Members also noted that the reduction in international tension could allow industrial countries under appropriate circumstances to release resources for additional ODA while reducing budgetary deficits. In any case, the Committee hoped that industrial countries could provide adequate support for strong adjustment efforts by the countries of Eastern and Central Europe without diverting ODA from traditional aid recipients. The Committee also urged that every effort should be made to increase ODA flows where needed. In this connection, the Committee invited donor countries, particularly those with assistance levels below the 0.7 percent ODA/GNP target, to make further efforts to increase the transfer of resources to developing countries.

7. Members recognized that the creditor nations could help to remove some of the constraints on the developing world. The Committee welcomed the agreement at the recent G-7 London Summit meeting on the need for additional relief for the poorest most indebted countries, on a case-by-case basis, going well beyond the relief already granted under Toronto terms. They called on the Paris Club to continue its discussion on how best to implement promptly these additional debt relief measure.

8. Members also welcomed the recent steps taken by several major debtors to regularize their relations with the commercial banks, and urged them to pursue market-based debt and debt-service reduction which will help them return to normal debtor-creditor relations. They noted that, while significant achievements have been made under the international debt strategy for the commercial banks, progress in implementation remained slow in some more complex cases and required continued efforts by all parties. Further progress would ease the resource constraints of a number of middle-income debtor countries. Members hoped more countries could soon benefit from the program, and so regain access to the international capital markets. They noted, however, that maintenance of creditworthiness is generally preferable to debt reduction, but for some countries, debt reduction is an important element in the restoration of creditworthiness as recognized under the debt strategy. The Committee recognized the need to continue financial support, with the help of advice from the Bank and the Fund, for those heavily-indebted countries which are pursuing appropriate growth-oriented policies and continue to avoid debt rescheduling even in difficult conditions.

9. The Committee called on the Bank and Fund to prepare jointly a further progress report on the implementation of the debt strategy, covering both official and commercial bank creditors, for its next meeting, including taking account of developments in the area of banking supervision.

d. Implications for the Bank and Fund

10. In considering the implications of their agreed priorities for the operations of the World Bank Group, the Committee welcomed the decision of the IFC Executive Board to recommend a \$1 billion capital increase, which it urged the Governors to approve before the end of 1991. Members noted the IFC's intentions to strengthen its development contribution and enhance its catalytic role in developing countries. The Committee urged IFC to use its resources so as to maximize participation by the private sector. It welcomed the steps already under way to strengthen collaboration between the IFC and the rest of the Bank Group.

11. The Committee agreed on the importance of the private sector as one of the World Bank Group's priorities. It confirmed the need for reinforced implementation of the comprehensive World Bank Group Plan of Action for Private Sector Development adopted in 1989, placing this within the context of the Bank's established objectives, which it serves to strengthen. The Committee noted that in pursuing this policy the Bank would have due regard to the complementarity between public and private sectors analyzed in the World Development Report 1991. Members considered that as result of this policy, the Group was now in a strong position to support the emerging market orientation of its member countries. The Committee agreed to keep all these arrangements under review starting at their Spring 1993 meeting and asked for a progress report from the Bank at that time.

12. The Committee noted that there will be a continued need for adequate highly-concessional flows to help the low-income countries. Members recognized that the resources provided by the Ninth Replenishment of IDA would run out in mid-1993. The Committee therefore noted with satisfaction that informal talks have already begun on the Tenth Replenishment and asked the Bank to provide a progress report at its next meeting on the status of the IDA negotiations. It also encouraged early action on the proposal to make possible Enhanced Structural Adjustment Facility support for certain countries beyond those already eligible.

13. The Committee noted that the IBRD now has substantial lending headroom available, but that new lending commitments have been relatively constant in real terms in recent years. For those countries where policy weaknesses and inadequate economic performance are constraining the level of IBRD lending, the Committee urged improved performance so that they can take advantage of the Bank resources which could be made available, and of the catalytic effect this would have in mobilizing other sources of finance. Members noted that even with a more rapid increase in commitments, net transfers from the Bank to developing countries in aggregate would remain negative, reflecting the maturity of the Bank as a lending institution. However, they stressed the need to maintain positive net transfers to individual adjusting countries to sustain the development process. The Committee welcomed the Bank's assurance that its assistance to Eastern and Central Europe could be

accomplished while continuing to support sound programs and investments in the Bank's traditional borrowing countries.

14. Members recognized that, in translating agreed objectives into operations, the Bank's Board and management need to consider a series of trade-offs. The Committee noted with satisfaction that these agreed objectives are now increasingly reflected in the Bank's guidelines and procedures, and are thus used in allocating the staff resources and lending capacity of the IBRD and of IDA. Members stressed that the issue for the Bank is now effective implementation in the design of assistance strategies and lending operations tailored to country needs and conditions. The Committee endorsed the recent shift in the pattern of lending and the projections for the next three years, which show an increased share going to human resource development. It recognized that individual lending operations will continue to be driven by country priorities and by prospects of loan effectiveness, so that precise quantitative targets for the institution as a whole would be inappropriate.

15. Members noted that over the past decade the Bank Group has increased its advisory role, which improves the effectiveness and quality of its lending activities. They noted with satisfaction the increased collaboration between the Fund and the Bank in providing countries with policy advice and technical assistance and in the coordination of financial support. The Committee stressed that such advice needs to be related to the circumstances of individual borrowers and coordinated with the support and experience provided by other international agencies in order to exploit the comparative advantage of each, to maximize the impact and to avoid undue overlap.

16. Members observed that there had been a significant increase in the number of countries seeking IMF assistance, and noted that although many Fund member countries had already consented to the Fund quota increase and the Third Amendment of the Articles of Agreement, the majority of them had not yet done so. The Committee urged those countries to act before the end of the year.

II. Human Resource Development (HRD)

17. The Committee reaffirmed the Bank's conclusion that HRD is at the heart of any strategy for reducing poverty and spurring economic growth, and agreed with the 1991 World Development Report that "investing heavily in people makes sense not just in human terms but also in hard-headed economic terms." In order to achieve these aims, the Committee believes that mutually reinforcing action is needed at the level of individual developing country governments; of the donor community as a whole; and of the Bretton Woods institutions.

a. Human Resource Development and the Developing Countries

18. Recognizing the differing needs of developing countries, the Committee called on their governments to review their own strategies for HRD, and to make sure that an appropriate policy framework is in place, which will integrate long-term HRD policies with macroeconomic policies, demographic factors, and development infrastructure. It urged those governments to ensure that in framing their overall budgets they make increased provision for HRD, as an essential complement to investment in fixed capital. Members drew attention to the need to concentrate HRD budgets increasingly on basic human services, especially in health care, including population policies, and toward the wider provision of primary education, for girls as well as boys, given the exceptionally high long-term payoff in this area. The Committee recommended that expansion of HRD should be accompanied by an equal emphasis on better quality services. Finally, it drew the attention of those governments to the benefits which can sometimes follow from diversifying the sources of funding and the delivery of services to include the private sector and nongovernmental organizations, even where governments themselves must retain the primary responsibility for ensuring their provision. The Committee also asked the World Bank to continue reviewing HRD policies in developing countries in the course of its policy dialogue with them; and to present a synoptic account of progress in future publications, which will help donors and recipients to keep track of trends.

b. Human Resource Development and the Industrial Countries

19. Noting the wide scope for supporting international action in this field, the Committee called on the donor community at large to give high priority to HRD investment. Members 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 should be so structured as to ensure that the projects could continue on the strength of local revenues once external support is phased out.

20. Members agreed that the high payoffs from well-designed HRD investment merit some increase or redirection of the total of official development assistance. The Committee encouraged donors to pool their experiences and where possible to concentrate their efforts in areas where their own expertise was greatest.

c. Human Resource Development and
International Financial Institutions

21. The Committee noted with satisfaction the increasing concentration of the World Bank's lending and advisory operations upon HRD. It welcomed the Bank's projected increase in HRD lending from about 6 per cent in the early 1980s to about 15 per cent of total Bank lending on average in FY92-94. It noted with satisfaction that primary health care now takes up about 3.5 per

cent of total Bank lending, and that primary education takes about 2.1 percent. It believes this reorientation to be well justified and desirable. It endorsed the World Bank's strategy of concentrating on support for broad programs of reform and development; of making maximum use of local resources and adapting to local conditions; of using the leverage of its own lending to encourage, where appropriate, the financing of a higher percentage of recurrent costs by donors and by recipients; of improving its evaluation of the impact of HRD lending so as to influence future expenditure decisions, by borrowers and other donors as well as by the World Bank; and by maintaining its own investment in high quality staff in the HRD area as a top priority within the constraints of its operating budget. The Committee also encouraged the IMF to continue increasing its emphasis on the social aspects of adjustment.

d. Women in Development

22. The Committee has increasingly come to recognize the structural and other constraints that prevent women from attaining their full role in the development process in many countries. It considered a progress report on this subject prepared by the Bank which demonstrated that the Bank Group is now increasingly addressing women-in-development 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 Committee was pleased with the efforts made since its last discussion of this topic, and urged the Bank to further emphasize implementation of its policy objectives through its economic and sector work and through its lending operations. The Committee asked for a further progress report in two years' time.

Future Work Program

23. The Committee agreed that it would in future carry out an annual review of the interlinkages between the policies of the industrial and developing countries focussing each year on a particular developmental topic. At its next meeting this review will emphasize trade aspects, and will be based on a joint issues paper provided by the Bank and the Fund. At that meeting the Committee will also consider the interaction of environmental and development policies in preparation for the United Nations Conference on Environment and Development to be held in June 1992, based on an issues paper to be prepared by the Bank in consultation with the Fund.

24. The Committee agreed to meet again in Washington, D.C. on April 28, 1992.

25. Members expressed their sincere thanks to the Government of the Kingdom of Thailand for its warm hospitality and for the excellent arrangements made for the meeting of the Committee in Bangkok.